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THE ADMINISTRATION'S BUDGET PROPOSAL FOR THE SBA FOR FISCAL YEAR 1991

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

OVERSIGHT OF THE SBA SMALL BUSINESS DEVELOPMENT CENTER PROGRAM AND REVIEW OF THE ADMINISTRATION'S BUDGET PROPOSALS

PART 3

APRIL 18, 1990

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April 18, 1990:

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SBA's SMALL BUSINESS DEVELOPMENT CENTER PROGRAM

WEDNESDAY, APRIL 18, 1990

U.S. Senate,
Committee on Small Business,
Washington, DC.

The Committee met, pursuant to notice, at 9:07 a.m., in room 428A, Russell Senate Office Building, Hon. Sam Nunn presiding.

STATEMENT OF HON. SAM NUNN, A U.S. SENATOR FROM THE STATE OF GEORGIA

Senator Nunn. The Committee will come to order. The Small Business Committee meets this morning to receive testimony on the SBA Small Business Development Center Program. This hearing is one of a series being conducted by the Committee under the leadership of Senator Bumpers prior to considering a multi-year authorization bill for the various programs administered by SBA.

Today our objectives are to see how the SBDC Program has been working and whether there are steps that can be taken to make it work even better. By all measures that I have heard of, the SBDC Program has been a real success story within the small business community. From its conception in 1976 in the innovative mind of Bill Flewellen, former Dean of College of Business Administration, University of Georgia, the SBDC Program has grown steadily for more than 10 years to become a key provider of essential business counseling and training for America's entrepreneurs.

From a single Pilot Program at the University of Georgia, the program now serves the small business community in 49 States, the District of Columbia, Puerto Rico, and the Virgin Islands. Services are delivered to the small business person, close to home, through a broad network of more than 600 centers and subcenters.

In 1981, shortly after the SBDC Program was provided, a statutory base through P.L. 96-302, which I was pleased to have sponsored as S. 918, the program counseled some 14,000 small business clients. During 1989, the number of clients served by the SBDC Program totaled 170,000. During that same year, the network conducted more than 11,400 training courses.

Recognizing the success of the program, funding has been steady from both the Federal and State sources. I think we also must keep in mind that the SBDC Program has been a prime example of a successful partnership between the Federal Government and State governments. The $50 million in Federal funding provided for fiscal year 1990 represents only about 40 percent of the funds provided to the program. The balance comes from State, local, and private sources, an estimated $110 million in fiscal year 1989.

I believe it is essential that this partnership relationship be maintained in SBA's oversight of the program. The cooperative agreement relationship, an assistance-type relationship, was selected specifically as an embodiment of the working relationship that must exist between SBA and each individual SBDC.

Our first witness this morning will be Bill Becker, Associate Deputy Administrator for Special Programs at SBA, who will share with us the SBA's view of the state of the SBDC Program today. In addition, he will share with us where they would like to see it go in the future.

And I would like to recognize the Associate Administrator for the Small Business Development Center Program, Ms. Janice Wolfe.

They will be followed by John Ols of the General Accounting Office. GAO conducted an indepth review of the SBDC Program, requested by Chairman Bumpers on behalf of the Small Business Committee.

Finally, and perhaps most importantly, the committee will be hearing from the SBDC community. Bob Bernier, this year's president of the Association of Small Business Development Centers, will share their assessment of the overall well-being of the program and how it can be improved.

Representatives of three SBDCs will then share with us specific success stories, the heart of what the program is all about. The SBDC at the University of Georgia is being represented by the University's president, Dr. Knapp. I look forward to his presentation with great pride in the work being carried on at the University of Georgia, in my State, as continuing the legacy of Bill Flewellen's vision in starting this program some 13 years ago.

So we look forward to hearing from the witnesses this morning.

Senator Grassley, I would be delighted to have any kind of opening statement you would like to make, and then we will go to the witnesses.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM THE STATE OF IOWA

Senator GRASSLEY. Just a short opening statement, Mr. Chairman, and I thank you for this opportunity. I also thank you for your leadership in this Committee, particularly on this very important issue, where we are facing the Administration's proposal for dramatic cuts in this program.

Small Business Development Centers provide invaluable assistance to many small businessowners throughout the Nation. SBDCs offer small businessowners individual counseling and a variety of training programs at little or no cost to the individual entrepreneur. I know that the 12 regional SBDCs in my home State of Iowa, along with their branch offices, counseled more than 5,000 Iowans, representing each of Iowa's 99 counties during the year of 1989.

The funding for SBDCs in fiscal year 1991 will be one of the focuses of our hearing, as well as how these organizations function and the good that they do. The Administration's fiscal year 1991 budget proposal includes approximately a $19 million decline for SBDC funding from the fiscal year 1990 $50 million level.

I hope that this Committee will not ratify those recommendations of the Administration's because I think it will do considerable damage to the work of these very good organizations.

But, more importantly, I look forward to hearing how the Administration would hope to maintain these SBDC programs at reduced and phased-out levels. Particularly, I am interested in how these changes are going to be made so dramatically within the next fiscal year.

Now, of particular importance to me, I am also interested in learning more about the funding formula which determines SBDC's funding for each State, and particularly for a State like mine, that has experienced a loss of population during the last decade. There are very few States that have had that happen. I am interested in how this new formula would impact on a State like Iowa.

I want to thank the witnesses who are testifying before us today. And I especially want to welcome, Mr. Chairman, to our Committee, Ron Manning, the State Director of Iowa's SBDCs. He also is the president-elect of the National Association of Small Business Development Centers. I look forward to hearing his testimony and his insights in regard to this program.

Thank you very much.

Senator Nunn. Thank you, Senator Grassley. I, too, am interested in the Administration's position on the SBDC Program, and I hope it will be clarified this morning by our first witness.

Mr. Becker, we are delighted to have you.

Senator Lott. Mr. Chairman, before you start, I do have a statement to put in the record.

Senator Nunn. Certainly. Without objection, Senator Lott's statement will be made a part of the record. Also I have a statement on behalf of the Chairman of the Committee, Senator Bumpers and Senator Boschwitz, the Ranking Minority Member, that will be inserted into the record at this point, if there is no objection.

[The prepared statements of Senators Lott, Bumpers, Boschwitz, Dixon, Burns, and Wallop follow:]

SENATOR TRENT LOTT
STATEMENT BEFORE THE SMALL BUSINESS COMMITTEE
HEARING ON THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM

MR. CHAIRMAN:

I WOULD LIKE TO THANK YOU FOR THIS OPPORTUNITY TO DISCUSS THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM. DURING THE LAST YEAR, I HAVE WORKED CLOSELY WITH THE SBDC'S IN MISSISSIPPI. IN A STATE WITH HIGH UNEMPLOYMENT AND A GENERAL LACK OF UNDERSTANDING OF WHAT IT TAKES TO START AND MAINTAIN A BUSINESS, THE SBDC'S CAN BE A VALUABLE RESOURCE.

LIKE ANY OTHER INFORMATIONAL RESOURCE, HOWEVER, THE SBDC'S ARE ONLY VALUABLE TO THE CLIENTS THAT KNOW THEY EXIST AND ARE A BENEFIT ONLY WHEN THEY ARE ACTUALLY GETTING INFORMATION TO THOSE WHO NEED IT.

FOR THAT REASON, I HAVE SPENT THE LAST YEAR FOCUSING ON THE SBDC PROGRAM IN MISSISSIPPI BY COMMUNICATING WITH RALEIGH BYARS, THE STATE DIRECTOR, AND REFERRING CLIENTS TO THE 13 OFFICES THROUGH-OUT THE STATE. THE RESPONSE FROM BUSINESSES AND PROSPECTIVE BUSINESS OWNERS HAS BEEN VERY IMPRESSIVE.

WHEN COMPARED TO THE NATIONAL SURVEY FIGURES IN THE GAO REPORT REQUESTED BY CHAIRMAN BUMPERS, THE SMALL BUSINESS DEVELOPMENT CENTERS IN MISSISSIPPI RANKED 20% HIGHER THAN THE NATIONAL AVERAGE IN CLIENT SATISFACTION. I THINK THIS IS PRETTY

GOOD, CONSIDERING THAT FEDERAL FUNDS INJECTED INTO THE PROGRAM FOR 1989 FOR THE ENTIRE STATE OF MISSISSIPPI WAS $100,000.00 LESS THAN THE AMOUNT PROVIDED FOR THE DISTRICT OF COLUMBIA.

ONE OF THE CLIENTS ASSISTED LAST YEAR ESTABLISHED AN APPAREL PLANT IN WEIR, MISSISSIPPI AND STILL SINGS THE PRAISES OF THE SBDC AND THE SERVICES THEY PROVIDED. THE MINORITY BUSINESS WAS BEGUN IN A COMMUNITY THAT HAD AN UNEMPLOYMENT RATE OF 200% OF THE U.S. AVERAGE. ALTHOUGH THE BUSINESS ONLY CREATED 26 JOBS, IT IS SIGNIFICANT BECAUSE IT IS THE ONLY INDUSTRIAL EMPLOYER IN THE IMMEDIATE AREA. ITS EMPLOYEES REPRESENT APPROXIMATELY 10% OF THE COMMUNITIES WORKING AGE POPULATION.

THIS IS AN EXAMPLE OF WHAT CAN BE DONE WHEN THE SBA OFFICES AND THE SMALL BUSINESS DEVELOPMENT CENTERS WORK TOGETHER IN RURAL AREAS.

I WOULD LIKE TO THANK THESE WITNESSES FOR APPEARING HERE TODAY AND I AM LOOKING FORWARD TO ASKING A FEW QUESTIONS.

STATEMENT OF SENATOR DALE BUMPERS

FIRST, I WANT TO THANK AND COMMEND SENATOR NUNN FOR AGREEING TO CHAIR THIS MORNING'S HEARING ON SMALL BUSINESS DEVELOPMENT CENTERS AND THE ADMINISTRATION'S BUDGET PROPOSAL FOR FISCAL 1991. MORE IMPORTANTLY, SAM NUNN IS ONE OF THE ORIGINAL SPONSORS AND PROPONENTS OF THIS PROGRAM, AND I COMMEND HIS LONGSTANDING INTEREST AND WORK TO PROVIDE ASSISTANCE TO THE NATION'S SMALL BUSINESSES.

I MUST BE CANDID IN SAYING THAT I CAME TO THE CHAIRMANSHIP OF THIS COMMITTEE WITH SOME SKEPTICISM ABOUT SBA'S MANAGEMENT ASSISTANCE EFFORTS OVERALL. MY WORST FEARS WERE CONFIRMED WHEN WE THOROUGHLY EVALUATED THE SBA 8(A) PROGRAM, WHICH WAS SUPPOSED TO HAVE A MANAGEMENT ASSISTANCE PROGRAM THROUGH SECTION 7(J) OF THE SMALL BUSINESS ACT. ALL TOO MANY 8(A) FIRMS TOLD US THAT THE CONSULTANTS PROVIDED BY SBA WEREN'T COMPETENT TO SWEEP FLOORS, MUCH LESS SOLVE THEIR BUSINESS PROBLEMS.

HENCE, IN 1987 I ASKED THE GENERAL ACCOUNTING OFFICE TO UNDERTAKE A COMPREHENSIVE EVALUATION OF THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM, WHICH HAD GROWN ENORMOUSLY IN THE APPROPRIATIONS PROCESS IN RECENT YEARS. THIS WAS A MAJOR UNDERTAKING BY GAO WHICH NATURALLY TOOK MUCH LONGER THAN I EXPECTED. HOWEVER, THE RESULTS WERE RATHER GLOWING FOR MOST OF THE CENTERS.

GAO SURVEYED A RANDOM SAMPLE OF 1000 SBDC CLIENTS, WHICH WERE DEFINED AS FIRMS WHO HAD RECEIVED MORE THAN ONE HOUR OF COUNSELING. WITH A VERY HIGH RESPONSE RATE, OVER 70% OF FIRMS SAID THEY WERE EITHER "VERY SATISFIED" OR "MODERATELY SATISFIED" WITH THE SERVICES PROVIDED BY THE SBDC'S, WHILE ONLY 17% RATED THE PROGRAM NEGATIVELY.

PERHAPS MORE IMPORTANTLY, OVER 81% OF FIRMS SAID THEY WOULD RECOMMEND THE SBDC TO A FRIEND WITH A BUSINESS PROBLEM. WHILE I HAVE REVIEWED THE REPORT WHICH GAO ISSUED LAST FALL, I LOOK FORWARD TO HEARING THE AGENCY'S TESTIMONY IN MORE DETAIL.

STATEMENT OF SENATOR RUDY BOSCHWITZ
HEARING ON THE
SMALL BUSINESS DEVELOPMENT CENTER PROGRAM
SMALL BUSINESS COMMITTEE
APRIL 18, 1990

THANK YOU, MR. CHAIRMAN, FOR HOLDING THIS HEARING ON THE SMALL BUSINESS ADMINISTRATION'S SMALL BUSINESS DEVELOPMENT CENTER (SBDC) PROGRAM. I SUPPORT THIS PROGRAM. IN FACT, IN OCTOBER I INTRODUCED S. 1737 WHICH WOULD REAUTHORIZE THE PROGRAM UNTIL OCTOBER 1, 1995. I WAS JOINED IN THIS EFFORT BY SENATORS STEVENS, WALLOP, LIEBERMAN & GRASSLEY.

SBDC'S PROVIDE ONE-STOP ASSISTANCE TO SMALL BUSINESS. THEY PROVIDE COUNSELING, TRAINING, AND MANAGEMENT AND TECHNICAL ASSISTANCE TO PRESENT AND PROSPECTIVE SMALL BUSINESS OWNERS. SBDC SERVICES ARE DEVELOPED IN COOPERATION WITH LOCAL SBA DISTRICT OFFICES TO ENSURE THAT THE SBDC'S COORDINATE EFFORTS, SHARE INFORMATION AND AVOID DUPLICATION WITH OTHER RESOURCES AVAILABLE THROUGHOUT THE STATE.

THERE ARE 53 SBDC'S IN 46 STATES. IN EACH STATE THERE IS A LEAD ORGANIZATION, ENDORSED BY THE GOVERNOR, WHICH SPONSORS THE SBDC AND FROM WHICH THE STATE-WIDE DIRECTOR MANAGES THE PROGRAM. THE LEAD CENTER IN MY STATE OF MINNESOTA IS THE DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT.

SBDC ASSISTANCE IS SPECIFICALLY TAILORED TO THE LOCAL AREA AND THE NEEDS OF INDIVIDUAL CLIENTS. IN FACT, THE SUBCENTER AT THE COLLEGE OF ST. THOMAS IN ST. PAUL, MN HAS AN EMPLOYEE WHO SPEAKS MANY ASIAN LANGUAGES AND DIALECTS. HE OPERATES AN ASIAN RESOURCE DESK AT THE SUBCENTER AND PROVIDES GREAT ASSISTANCE TO THE LARGE ASIAN POPULATION IN THE ST. PAUL AREA.

I WOULD LIKE TO MENTION TWO EXAMPLES OF ASSISTANCE PROVIDED BY THE MINNESOTA SBDC NETWORK. THE PINE TECHNICAL COLLEGE SUBCENTER ASSISTED A GARMENT MANUFACTURER WHOSE SALES HAD GROWN FROM $17,000 TO $100,000 IN ONE YEAR. THE CLIENT HAD BORROWED SMALL AMOUNTS FROM SEVERAL DIFFERENT SOURCES, AND NEEDED HELP IN CONSOLIDATING LOANS AND PURCHASING EQUIPMENT. THE SBDC HELPED THE CLIENT DEVELOP A BUSINESS PLAN, ESTABLISH A BUDGET, AND SET PRIORITIES. THIS ENABLED THE CLIENT TO OBTAIN FINANCING FOR THE NECESSARY EQUIPMENT FROM A LOCAL BANK AND FROM THE CENTRAL MINNESOTA INITIATIVE FUND. THE BUSINESS NOW EMPLOYS 24 PEOPLE (17 FULL TIME AND 7 CONSULTANTS), AND RECORDED $700,000 IN SALES VOLUME DURING 1989.

THE BRAINERD TECHNICAL COLLEGE SUBCENTER MAINTAINS AN INVENTION AND INNOVATION CONSULTANT WHOSE SERVICES ARE AVAILABLE STATEWIDE. RECENTLY, THE SUBCENTER HELPED A LOCAL PHARMACIST-INVENTOR GET HIS PRODUCT TESTED BY AN OFFICIALLY RECOGNIZED TESTING FACILITY. THIS ENABLED HIM TO MARKET THE PRODUCT TO A COMMERCIAL AND MEDICAL SUPPLY FIRM AND OBTAIN FINANCING FOR FURTHER PRODUCT DEVELOPMENT.

SBA PROVIDES 50% OR LESS OF THE FUNDING FOR THE OPERATION OF EACH STATE SBDC. THE APPLICANT ORGANIZATION PROVIDES 50% OR MORE OF STATE PROGRAM COSTS. THESE MATCHING FUNDS ARE PROVIDED BY CONTRIBUTIONS FROM STATE LEGISLATURES, PRIVATE SECTOR FOUNDATIONS AND GRANTS, STATE AND LOCAL CHAMBERS OF COMMERCE, STATE-CHARTERED ECONOMIC DEVELOPMENT CORPORATIONS, PUBLIC AND PRIVATE UNIVERSITIES, VOCATIONAL AND TECHNICAL SCHOOLS, COMMUNITY COLLEGES, ETC. INCREASINGLY, THESE MATCHING FUNDS ARE EXCEEDING THE REQUIRED 50% MATCHING SHARE.

IN ADDITION TO COUNSELING, TRAINING AND MANAGEMENT AND TECHNICAL ASSISTANCE, SBDC'S ALSO PROVIDE SPECIAL PROGRAMS AND ECONOMIC DEVELOPMENT ACTIVITIES. AMONG THESE ARE SERVICES TO INVENTORS WITH PATENTABLE PRODUCTS, INTERNATIONAL TRADE CENTERS FOR EXPORT AND IMPORT ADVICE, BUSINESS LAW INFORMATION AND GUIDANCE, PROCUREMENT MATCHING ASSISTANCE, VENTURE CAPITAL FORMATION AND SMALL BUSINESS INCUBATORS.

THE SBDC'S ALSO MAKE SPECIAL EFFORTS TO REACH MEMBERS OF MINORITY GROUPS, VETERANS, WOMEN, THE HANDICAPPED AND OTHER CURRENT OR POTENTIAL SMALL BUSINESS OWNERS. THEY ALSO PROVIDE ASSISTANCE TO SMALL BUSINESSES APPLYING FOR SMALL BUSINESS INNOVATION AND RESEARCH GRANTS.

IN 1989, APPROXIMATELY 170,000 SMALL BUSINESS OWNERS AND PROSPECTIVE OWNERS WERE COUNSELED AND TRAINED THROUGH SBDC'S.

THE MINNESOTA SBDC AND ITS SUBCENTERS PROVIDED COUNSELING AND TRAINING TO OVER 11,000 BUSINESSES DURING 1989.

MR. CHAIRMAN, I AM PLEASED TO SUPPORT THE REAUTHORIZATION OF THE SBDC PROGRAM. I WELCOME OUR WITNESSES THIS MORNING AND I THANK YOU FOR HOLDING THIS HEARING.

STATEMENT OF SENATOR ALAN J. DIXON

HEARING ON THE SBA SMALL BUSINESS DEVELOPMENT CENTER PROGRAM

COMMITTEE ON SMALL BUSINESS

APRIL 18, 1990

SENATOR NUNN, I COMMEND YOU, AND CHAIRMAN BUMPERS FOR CALLING THESE HEARINGS TO REVIEW THE SMALL BUSINESS ADMINISTRATION'S SMALL BUSINESS DEVELOPMENT PROGRAM. FROM MY REVIEW OF THE TESTIMONY SUBMITTED BY TODAY'S WITNESSES, THE SBA AND THE SBDC COMMUNITY CAN RIGHTFULLY DISPLAY A GOOD DEAL OF PRIDE IN A PROGRAM THAT BY ALL MEASURES IS A SUCCESS. I WOULD ALSO LIKE TO NOTE FOR THOSE NEW TO THIS FINE SBA PROGRAM THE LEADERSHIP ROLE, WHICH MY GOOD FRIEND FROM GEORGIA, PLAYED IN THE CREATION OF THE SBDC PROGRAM IN THE LATE 1970S. IT WAS HIS LEGISLATION THAT PROVIDED THE STATUTORY BASIS FOR THE PROGRAM, WHICH HAD DEMONSTRATED ITS POTENTIAL THROUGH A PILOT PROGRAM AT THE UNIVERSITY OF GEORGIA.

WE IN ILLINOIS ALSO HAVE A STRONG SBDC PROGRAM. ESTABLISHED IN 1984, OUR ILLINOIS PROGRAM DEMONSTRATES THE EFFECTIVENESS OF THE PUBLIC-PRIVATE PARTNERSHIP THAT IS THE ESSENCE OF THE SBDC PROGRAM. DIRECTION FOR THE OVERALL ILLINOIS PROGRAM IS PROVIDED BY THE ILLINOIS DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS. BUT AS IN MOST OTHER STATES, THE ILLINOIS PROGRAM HAS THE BENEFIT OF BROAD PARTICIPATION BY MANY STATE AND LOCAL INSTITUTIONS OF HIGHER EDUCATION -- SOUTHERN ILLINOIS UNIVERSITY AT CARBONDALE, NORTHERN ILLINOIS UNIVERSITY, BLACK HAWK COMMUNITY COLLEGE, AND WESTERN ILLINOIS UNIVERSITY TO NAME

BUT A FEW OF THE REGIONAL LEAD ORGANIZATIONS. THE PROGRAM ALSO BENEFITS FROM THE COSPONSORSHIP AND COOPERATION OF SUCH IMPORTANT SMALL BUSINESS GROUPS AS THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS AND SMALL BUSINESS UNITED OF ILLINOIS, PART OF NATIONAL SMALL BUSINESS UNITED.

LIKE MOST SBDCS, OUR ILLINOIS PROGRAM PROVIDES A FULL ARRAY OF SERVICES TO ITS CLIENTS. IT IS ALSO ADDRESSING THE NEWER NEEDS OF SMALL BUSINESS ENTREPRENEURS: FOR EXAMPLE, TAKING ADVANTAGE OF TECHNOLOGY TRANSFER TO SPUR COMMERCIALIZATION OF ADVANCES MADE THROUGH GOVERNMENT RESEARCH. OUR PROGRAM IS ALSO WORKING IN THE GROWTH AREA OF ASSISTING FIRMS WISHING TO EXPORT.

THE ILLINOIS PROGRAM ALSO HAS A STRONG PROCUREMENT ASSISTANCE COMPONENT WITHIN ITS OVERALL SYSTEM OF CLIENT SERVICES. AS CHAIRMAN OF THE SUBCOMMITTEE ON GOVERNMENT CONTRACTING AND PAPERWORK REDUCTION, THIS COMMITTEE HAS WORKED HARD TO INCREASE OPPORTUNITIES FOR SMALL BUSINESS CONCERNS TO PARTICIPATE IN THE FEDERAL MARKETPLACE. AS CHAIRMAN OF THE COMMITTEE ON ARMED SERVICES AND SENIOR DEMOCRATIC MEMBER OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS, SENATOR NUNN HAS STRONGLY SUPPORTED MANY OF THESE IMPORTANT INITIATIVES TO PROVIDE FAIR PARTICIPATION BY SMALL FIRMS IN BOTH DEFENSE AND CIVIL AGENCY PROCUREMENTS.

ONE OF THE INITIATIVES TAKEN AT THE ARMED SERVICES COMMITTEE WAS THE CREATION OF THE PROCUREMENT TECHNICAL ASSISTANCE (PTA) PROGRAM AS PART OF THE FY 86 DOD AUTHORIZATION ACT.

UNDER THE MANAGEMENT OF THE DEFENSE LOGISTICS AGENCY, THIS PROGRAM PROVIDES SOME FEDERAL SUPPORT FOR PROGRAMS TO ASSIST SMALL BUSINESS CONCERNS TO DO BUSINESS WITH DOD. LIKE THE SBDC PROGRAM, IT IS A PARTNERSHIP OF FEDERAL, STATE, AND PRIVATE NOT-FOR-PROFIT ENTITIES. WE ENVISIONED THAT SBDCS SHOULD BE ABLE TO COMPETE FOR THE COOPERATIVE AGREEMENTS AWARDED BY DLA. QUESTIONS HAVE NOW ARISEN CONCERNING THEIR ELIGIBILITY. WE NEED TO ADDRESS THOSE QUESTIONS TODAY, AND MAKE WHATEVER CLARIFICATIONS NEED TO BE MADE IN THE SMALL BUSINESS ACT OR IN TITLE 10.

MR. CHAIRMAN, WITHOUT FURTHER COMMENT, I WANT TO AGAIN THANK YOU FOR YOUR LEADERSHIP, AND JOIN YOU IN WELCOMING TODAY'S WITNESSES. I LOOK FORWARD TO THEIR TESTIMONY.

STATEMENT OF SENATOR BURNS

Good morning Mr. Chairman. It's a pleasure to be here. I won't take up much time this morning because I know we want to get on with this content of this hearing.

I would like to go on record however to say that my state of Montana has benefited greatly from the presence of Small Business Development Centers. In a small rural populated state like Montana we feel it is quite beneficial to have the additional reinforcement for our small business owners. In many cases we have limited counseling resources as well as other information that these people need.

Small business is very important to Montana. A newsclip from June of 1989 stated that Montana has the highest proportion of small businesses in the country. According to the report, commissioned by the US West Communications, 95.8 percent of all Montana business establishments are small business, compared to 92.3 percent nationally. They account for 68.4 percent of the employment in Montana, compared to 47.1 percent nationally.

Small businesses are the lifeblood of our western states economy and I believe we must do anything we can to continue to stimulate their growth. It is my concern that we don't hinder the growth and stabilization of these centers.

With that I will turn it back to you Mr. Chairman.

STATEMENT BY SENATOR MALCOLM WALLOP
BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS
REGARDING THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM
WEDNESDAY, APRIL 18, 1990

I thank the Chairman for holding this hearing on the Small Business Development Center Program. I am certain that my colleagues on this committee share my view that the Small Business Development Centers (SBDC) play a vital role in the growth and advancement of small businesses throughout the country. As a cosponsor of Senator Boschwitz's legislation to reauthorize the SBDC program through fiscal year 1995, I am extremely supportive of furthering the goal of educating our small businesses through the diverse counseling and training services offered by these centers.

The results of a study recently completed by the General Accounting Office (GAO) provide favorable information on a number of key characteristics of the Small Business Development Centers, with a particular emphasis on client satisfaction with program assistance. The statistics show that on a nationwide basis, 69 percent of SBDC clients were satisfied with the counseling they received and 76 percent would contact the program for future business assistance.

In my own state of Wyoming, the clients polled were well satisfied with the overall assistance of the SBDCs and would likely contact them again. Since 1986, when the SBDCs in Wyoming counseled 495 clients, the number of people and types of businesses seeking their assistance has steadily increased. In 1988, Wyoming SBDCs counseled 1,366 clients and trained nearly 6,000 in the service, retail, manufacturing and mining industries.

These figures are no small attestation to the fact that the reauthorization of the SBDC program is of great import to the expansion of our nation's small businesses. Of the more than 22 million new jobs created in the U.S. between 1976 and 1986, small businesses created 57.2 percent. In contrast, business failures declined 6.6 percent between 1987 and 1988, a factor which may be attributable to some of the SBDC assistance offered small companies nationwide. The continuation of the SBDC program should go a long way towards advancing the economic growth of our country's business sector. I look forward to hearing the testimony of today's witnesses which highlights some of the success stories our SBDCs have had with their business clients.

Senator NUNN. Mr. Becker.

STATEMENT OF WILLIAM S. BECKER, ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC, ACCOMPANIED BY JANICE WOLFE, ASSOCIATE ADMINISTRATOR FOR THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM, SBA

Mr. BECKER. Thank you, Mr. Chairman, I am delighted to be here. And thank you, Mr. Chairman and Members, for the opportunity to testify on the Small Business Development Center Program.

I have prepared a written statement, but in the interest of time I will merely summarize it orally this morning and I would like to ask that the written statement be entered into the record.

Senator NUNN. Without objection, it will be.

Mr. BECKER. Thank you for introducing Janice Wolfe. She is the Associate Administrator for the Small Business Development Center Program in the SBA, and in charge of day-to-day administration of the SBDC Program.

By way of explanation, Mr. Chairman, I am one of three Associate Deputy Administrators of the SBA. I oversee the Agency's programs that offer technical assistance, training, and counseling to small businesses. This portfolio includes the Office of Small Business Development Centers.

The SBDC Program has grown, as you pointed out, Mr. Chairman, considerably since it was created in 1976. From a Pilot Program at the business college of a single university, the program has now spread to 49 States, Puerto Rico, the Virgin Islands, and the District of Columbia. Negotiations are actively underway to bring the final State, California, into the SBDC network.

Today, this network includes more than 600 centers and subcenters, which have become a major source of management training and technical assistance to small businesses nationwide. SBDCs are now the SBA's major network for delivering training and counseling to small businesses. During fiscal 1989, SBA supplied nearly 1.8 million hours of counseling to nearly 336,000 entrepreneurs. More than 73 percent of those counseling hours, and more than half of our counseling cases were handled by SBDCs.

The same is true for training. SBA conducted more than 3 million hours of small business training during fiscal 1989. Nearly 74 percent of our training sessions and more than 58 percent of our training hours were conducted by SBDCs.

The SBA's funding for the program has grown to $50 million in fiscal 1990. As you know, Mr. Chairman, the law requires that SBDCs match their Federal funding dollar for dollar. The Association of Small Business Development Centers reports that for every dollar provided by SBA, between $1.50 and $2 are provided by State, local, and private resources, well beyond the statutory requirement.

The range and variety of programs offered by SBDCs to small businesses have also grown considerably over the years. In my written statement, I have described some of the types of programs and services being offered by the SBDC network in such areas as export training and rural small business development.

The recent report by the General Accounting Office indicates that SBDC services are not only widely available, but also well received. As you know, Mr. Chairman, the GAO study was requested by this Committee following the program's last oversight hearing.

We were delighted with the positive nature of the report and the thoroughness of the surveys and the methodology used by GAO. We were also gratified by the GAO's findings that SBDC clients have high regard for the quality of services they receive.

Nevertheless, we are reviewing the report carefully to determine ways we can build on our strengths and to correct what could be perceived as weaknesses. For example, we would like to attract more SBDC clients from outside the retail and service sectors. We will be closely monitoring our statistics to make certain that all industries are being adequately served.

We also are concerned that SBDCs establish more of a presence in the minority business community. Prior to receiving GAO's report, in fact, we already have been working with SBA's Office of Minority Small Business and Capital Ownership Development on two pilot projects in which SBDCs perform specific counseling functions for minority-owned small businesses.

That is the status of the SBDC Program, today, Mr. Chairman. I would like to address the status of the SBDC Program in the future.

As you know, the Administration's fiscal 1991 budget proposes $30 million in funding for SBDCs. Federal funding in fiscal year 1992 would be reduced to $15 million, and Federal funding would be phased out in 1993. It is the Administration's position that by fiscal year 1993, SBDCs will be well-established, well-known, and well-supported resources in every State, and that State, local, and private sources will continue funding these centers above and beyond the current statutory requirement.

Underscoring the Administration's confidence that non-Federal support will continue for SBDCs is the wide recognition by State and local officials, and by society in general, of the importance of small businesses to local economies. The Administration is confident that State and local governments, universities, and the private sector will recognize the need for continued support for SBDCs.

During the phase-down period, delineated in the 1991 budget proposal, the SBA will make every effort to ensure that the SBDC network is in excellent shape when its support is assumed by State, local, and private resources.

We also realize, however, that past proposals to end the Federal role in SBDCs have been rejected by Congress. If that is Congress' decision again, we would propose several modifications to our administration of SBDCs.

First, as the GAO study reported, there is agreement between SBA and the Association of Small Business Development Centers that onsite reviews should be conducted less frequently than every 2 years. SBA monitors the program by requiring our project officers to conduct 400 reviews of their SBDCs. Each SBDC submits quarterly and annual financial and statistical reports to SBA, and SBDCs are audited on a regular basis by the Office of the Inspector

General of SBA, or by the SBDC's cognizant agency. If problems arise, we take care of them at the time they are reported.

With these procedures in place, we do not believe it is necessary for SBDCs or SBA to go to the expense of an onsite review for each SBDC every 2 years.

Second, we and the association now agree that the program would benefit from regulations. SBA published proposed regulations for this program in 1986 and 1987. However, the Agency has been prohibited by Congress from publishing a final regulation. The association and our office of SBDCs agree, now, that reasonable regulations would bring uniformity and consistency where it is needed and would help lend stability to the program.

In February, representatives from the association and our office of SBDCs met to discuss the concepts and procedures for promulgating regulations. These representatives reached a general consensus on issues that should be covered by regulations. Those issues include budget and structure, with all appropriate definitions and authorities; program income; carryover; overmatched definitions and issues; grant renewals, including competing applications, termination, causes and procedures; disputes in conflict resolution procedures; and modifications of cooperative agreements.

Our discussions with the association are continuing. We will notify this Committee, Mr. Chairman, when we have agreed upon specific provisions in language.

Third, as the GAO study also mentions, we have developed procedures for piloting a multi-year approval process for SBDCs. Each SBDC Program is now approved annually. Under this new procedure, participating SBDCs will submit 3-year, indepth proposals.

In the 2d and 3d years after approval, SBDCs will only have to furnish minimal information to trigger SBA's option for renewal. This will greatly reduce paperwork and redtape for SBDCs and add stability to their planning and programs.

That concludes my oral remarks, Mr. Chairman. I appreciate this opportunity to update you and Members of the Committee on the status of the SBDC Program.

[The prepared statement of Mr. Becker follows:]

Statement on Small Business Development Centers
Before the Senate Small Business Committee

William S. Becker
Associate Deputy Administrator for Special Programs
U.S. Small Business Administration
April 18, 1990

Mr. Chairman and Members, thank you for the opportunity to testify before you on the Small Business Development Center program.

By way of explanation, I am one of three Associate Deputy Administrators at the Small Business Administration. I oversee the Agency's programs that offer technical assistance, training and counseling to small businesses. This portfolio includes the Office of Small Business Development Centers.

As you know, the SBDC program has grown considerably since it was created in 1977. From a pilot program at the business college of a single university, the program has now spread to 49 states, Puerto Rico, the Virgin Islands and the District of Columbia. Negotiations are actively underway to bring the final state, California, into the SBDC network.

Today, this network includes more than 600 centers and subcenters which have become a major source of management training and technical assistance for small businesses nationwide. Back in 1981, SBDCs counseled about 14,000 small business owners. By Fiscal Year 1989, the SBDC network counselled 170,000 prospective or existing small business owners, and conducted more than 11,400 training courses. SBDC counseling activities grew 32 percent in 1989 compared to 1988, and training activities grew 17 percent.

Since their inception, SBDCs have become the SBA's major network for delivering training and counseling to small businesses. For example, during Fiscal Year 1989, SBA supplied nearly 1.8 million hours of counseling to nearly 336,000 entrepreneurs; more than 73 percent of those counseling hours and more than half our counseling cases were handled by SBDCs.

Likewise, SBA conducted more than 3 million hours of small business training during Fiscal 1989. Nearly 74 percent of our training sessions and more than 58 percent of our training hours were conducted by SBDCs.

The SBA's funding for the program has grown to $50 million in Fiscal Year 1990, but according to the Association of Small Business Development Centers, our funding represented only about 40 percent of the money dedicated to SBDCs nationwide in 1989. The Association estimates that SBDCs obtained more than $110 million in financial support last fiscal year, with nearly half that amount coming from states, and the balance - or about 10 percent - coming from private, local and other Federal sources. The Association reports that for every dollar provided by SBA, between $1.50 and $2 is provided by state, local and private sources - well beyond the statutory requirement for at least 50 percent non-SBA support for SBDCs.

I will be providing each member of the committee with a profile of the SBDC network in his or her state. As you will see, SBDCs offer a great variety of services to small businesses. Some 30 SBDCs have established formal international trade and exporting centers or programs. The average SBDC commits about 55 percent of its programming to rural small business development. Many other programs also are emphasized, ranging from business development for women and minorities, to technology transfer, procurement assistance, capital formation and venture capital matching, veterans' programs, franchising assistance, Native American business assistance - the list goes on.

It is important to note that SBDCs have evolved to include satellite delivery centers for agencies other than the Small Business Administration. The subject of export promotion and training offers a good example. In more than 20 states, SBDCs have joined the U.S. Department of Commerce's Associate Office Program, and distribute Commerce information related to exporting. SBDCs also work closely with Chambers of Commerce and State Economic

Development Agencies to assist small business exporters.

In recent years, the SBA has worked with Small Business Development Centers to improve their services through a number of initiatives. One is the "SBDC Connection", a nationwide computerized clearinghouse operated by the SBDC at the University of Georgia. This clearinghouse allows SBDCs around the country to share information about their programs and innovations. It serves as a repository of information and materials developed by SBDC directors and the SBA. In addition, the clearinghouse responds to SBDC requests for reference materials and information on business-related topics.

Another initiative involves the National Institute of Standards and Technology (NIST) at the Department of Commerce. In December 1988, the SBA and NIST jointly asked SBDCs to volunteer for a pilot program on technology transfer. NIST proposed using SBDCs to identify which small businesses would be best suited for interacting with NIST's programs. More than 25 SBDCs responded, and pilot projects are now underway in Washington State, Indiana, Massachusetts and North Dakota.

As you know, Mr. Chairman, the SBDC network was recently the subject of a study by the General Accounting Office. That study was requested by this committee at the time of the last oversight hearing on the program on October 15, 1987. We received this report in late December 1989.

We were delighted with the positive nature of the report and we were impressed with the thoroughness of the surveys and the methodology used by the GAO. The GAO made no recommendations for changes in the SBDC program. We were gratified by the GAO's findings that SBDC clients have high regard for the quality of services they receive.

Nevertheless, we are reviewing the report carefully to ascertain ways to build on our strengths and correct what could be perceived as weaknesses. For example, we would like to attract more SBDC clients from outside the retail or service sectors. We will closely monitor our statistics to make certain that all industries are being adequately served.

We also are concerned that SBDCs have more of a presence in the minority business community. Prior to receiving GAO's report, in fact, we already had been working with SBA's Office of Minority Small Business and Capital Ownership Development (MSB&COD) on two pilot projects in which SBDCs perform specific counseling functions for minority-owned small businesses.

In the first pilot project, through an agreement between the MSB&COD and SBDC offices, SBDCs were encouraged to compete for certain 7(j) projects offering intensive, hands-on counseling for minority-owned firms. Several excellent proposals from SBDCs were reviewed and two grants were awarded to provide this type of counseling. Those grants have gone to the SBDCs at the University of West Florida and the University of Georgia. We will evaluate this one-time pilot to determine whether it has been successful.

In the other pilot project, the MSB&COD and SBDC offices are working on a joint notice which will encourage SBDCs to provide specialized counseling and training to 8(a), prospective 8(a) and other minority-owned small businesses. This notice will ask SBDCs to play a major role in helping minority owned firms through their transition period out of the 8(a) program.

Both of these projects have been enthusiastically endorsed by the SBDCs, although only a small amount of additional funding is available from the 7(j) program and no additional money has been allocated to SBDCs for their transition work with minority-owned firms. We intend to keep working with the SBDCs and the MSB&COD program to make these projects work and to develop other worthwhile goals for SBDCs in the minority small business community.

That, very briefly, is the status of the SBDC program today.
In the remainder of these remarks, I would like to address the status of the SBDC program in the future.

As you know, the Administration's Fiscal Year 1991 budget proposes

$30 million in funding for SBDCs. Federal funding in Fiscal Year 1992 would be reduced to $15 million, and Federal funding would be phased out in Fiscal Year 1993.

It is the Administration's position that by Fiscal Year 1993, SBDCs will be well-established, well-known and well-supported resources in every state, and that state, local and private sources will continue funding these centers above and beyond the current statutory requirement.

Underscoring the Administration's confidence that non-federal support will continue for SBDCs is the wide recognition by state and local officials, and by society in general, of the importance of small businesses to local economies. As one national magazine recently wrote, this is the "golden age of the entrepreneur." If there ever was any doubt about the vital role small enterprises have in creating jobs, opportunities and tax revenues, that doubt has disappeared.

The Administration is confident that state and local governments, universities and the private sector will recognize the need for continued support for SBDCs. During the phase-down period delineated in the Fiscal Year 1991 budget proposal, the SBA will make every effort to ensure that the SBDC network is in excellent shape when its support is assumed by state, local and private resources.

We also realize, however, that past proposals to end the Federal role in SBDCs have been firmly rejected by Congress. If that is Congress' decision again, we would propose several modifications to our administration of SBDCs.

First, as the GAO study reported, there is agreement between SBA and the Association of Small Business Development Centers that onsite reviews should be conducted less frequently than every two years. SBA monitors the program by requiring our project offices to conduct quarterly reviews of their SBDCs. Each SBDC submits quarterly and annual financial and statistical reports to SBA, and SBDCs are audited on a regular basis by the Office of Inspector General of SBA or by the SBDCs' "cognizant agency". If problems arise, we take care of them at the time they are reported. With these procedures in place, we do not believe it is necessary for SBDCs or SBA to go through the expense of an onsite review for each SBDC every two years.

Second, we and the Association of Small Business Development Centers now agree that the program would benefit from regulations.

As you know, Mr. Chairman, SBA published proposed regulations for this program in 1986 and 1987. However, SBA has been prohibited from publishing a final regulation governing the SBDC program. This prohibition continues to exist. SBA's Fiscal Year 1990 appropriation contains language that bars SBA from using any funds to "adopt, implement or enforce any rule or regulation" or to impose any restrictions or conditions by agency procedures or guidelines that weren't in effect prior to October 1, 1987. The lack of regulations contributes to the "material weaknesses" identified in the SBDC program by SBA's Office of Administration, in its report pursuant to the Federal Manager's Financial Integrity Act.

The Association and our Office of SBDCs now agree that reasonable regulations would bring uniformity and consistency where it is needed, and would help lend stability to the program.

In February, representatives from the Association and our Office of SBDCs met to discuss the "big picture" - the general concepts and procedures for promulgating regulations for the SBDC program. These representatives reached a general consensus on issues that should be covered by regulations. Those issues include budget and structure, with all appropriate definitions and authorities; program income; carryover; overmatch definitions and issues; grant renewals, including competing applications, termination causes and procedures; disputes and conflicts resolution procedures; and modifications of cooperative agreements.

Our discussions with the Association are continuing and we will notify this committee, Mr. Chairman, when we have agreed upon specific provisions and language.

Third, we have developed procedures for piloting a multi-year approval process for SBDCs. As you know, each SBDC program is now approved annually. Under this new procedure, participating SBDCs will submit three-year in-depth proposals. In the second and third years after approval, SBDCs will only have to furnish minimal information to "trigger" SBA's option for renewal. This will greatly reduce paperwork and red tape for SBDCs, and will add stability to their planning and their programs.

That concludes my remarks for the record, Mr. Chairman. I appreciate this opportunity to update you and members of the Committee on the status of the SBDC program.

Senator **Nunn**. Thank you, Mr. Becker.

Mr. Becker, I notice in your full statement on page 2, you say:

> Since their inception, SBDCs have become SBA's major network for delivering training and counseling to small business.

That is your statement, is it not?

Mr. **Becker**. Yes.

Senator **Nunn** [reading]:

> For example, during fiscal year 1989, SBA supplied nearly 1.8 million hours of counseling to nearly 336,000 entrepreneurs, more than 73 percent of these counseling hours and more than half the counseling cases were handled by SBDCs.
>
> Likewise, SBA conducted more than 3 million hours of small business training during fiscal year 1989, nearly 74 percent of our training sessions and more than 58 percent of our training hours were conducted by SBDCs.

So what you are saying is that the SBDCs have become the major network for SBA in delivering training and counseling to small business?

Mr. **Becker**. That is correct.

Senator **Nunn**. And you are pleased with the way they are handling it?

Mr. **Becker**. Yes, sir.

Senator **Nunn**. Did SBA recommend that the funding be cut to zero?

Mr. **Becker**. No, sir.

Senator **Nunn**. What was the SBA's recommendations?

Mr. **Becker**. The Administration's recommendation—or the SBA's recommendation?

Senator **Nunn**. The SBA's recommendation.

Mr. **Becker**. The Administration was to continue funding at the fiscal 1990 level, Mr. Chairman.

Senator **Nunn**. Did you believe that when you made that recommendation that the States would pick up the slack if total Federal funding was eliminated?

Mr. **Becker**. We were hopeful that would be the case.

Senator **Nunn**. You evidently did not feel that was going to be the case because you recommended full funding, did you not?

Mr. **Becker**. Yes, I am sorry, I misunderstood your question. Did we feel that State and locals would pick up all of that funding if Federal funding was eliminated?

Senator **Nunn**. Right. You must have not felt that way or you would not have recommended funding.

Mr. **Becker**. Well, our position was that we would like to see the program continue at its current level, that we would like to continue to be involved in the SBDC Program from the SBA standpoint. And we thought it appropriate to fund the program at its fiscal 1990 level.

Senator **Nunn**. When the SBDC Program is basically carrying out the majority of the counseling and assistance given to small businesses by the SBA, it only makes sense to put some funds into it at the Federal level, does it not? To you, your personal view?

Mr. **Becker**. In my personal view, yes.

Senator **Nunn**. Thank you.

As Senator Grassley already mentioned, it is expected that the SBDC Program will be affected by the results of the 1990 census.

Are any changes to the program's existing funding formula being contemplated?

Mr. BECKER. I understand, and I only understand this by second or third hand, Senator, that there are discussions going on about how to adjust the SBDC funding based on the new census figures. We anticipate those census figures will be available some time during 1992 and would have their first impact on funding in fiscal 1993. We have not been involved in those discussions, but we hear some are under way on the House side.

Senator NUNN. Your full statement notes that positive discussions are taking place regarding a completely new set of proposed regulations for the SBDC Program. I infer from this that this new proposal will preserve the SBDC Program's character as a grant-type program. Is that right?

Mr. BECKER. That is correct.

Senator NUNN. So you are not talking about going back to the regulations that were proposed in the Reagan Administration that caused the controversy?

Mr. BECKER. No, sir.

Senator NUNN. You are talking about a different kind of regulation?

Mr. BECKER. That is correct.

Senator NUNN. And you are getting some consensus in the SBDC community?

Mr. BECKER. That is my understanding, yes.

Senator NUNN. Thank you.

Senator Grassley.

Senator GRASSLEY. Mr. Chairman, I believe you touched on a few points that I wanted to bring up, so I am not going to ask specific questions.

I think I can conclude from your response to Senator Nunn that you do feel that at least the present level of funding ought to be maintained, and you obviously were turned down on that request by OMB to the extent of $19 million for this year, and presumably their efforts to phase it out in succeeding years.

I assume that means that at least the $50 million present level of funding, you feel ought to be maintained and that the program of SBDCs is very worthwhile. I would also assume that you concluded that States would not have the ability to pick up this present level of activity on the part of SBDCs.

Mr. BECKER. Senator, I have not come to any conclusions on the States' ability to pick up the entire $50 million level. My assumptions did not go that far. As I explained, I was interested in seeing SBA's involvement in SBDCs continued, but let me put in context my response to the Chairman's question.

My desires as ADA for Special Programs in SBA, and in fact, SBA's desire had to be weighed by OMB in my context in the entire budget ecology. And that budget ecology, as it has for several years, contained a number of very painful choices and this was one of them.

From the SBA's perspective, I personally support the continuation of our relationship with SBDCs, but when the entire budget was considered and the cuts necessary for deficit reduction, the Administration felt this was a program, a worthwhile program, that had a good chance of having its funding support assumed by the State, local, and private resources.

Senator GRASSLEY. OK, but on the other hand, your predictions are oriented to the fact that this program, in order to be maintained at the present level, took $50 million. I mean, I hope you are not saying that by assenting to OMB's overall national budget priorities, that you can still maintain this program at $19 million less.

Mr. BECKER. When we began our budget discussions in formulation of the 1991 budget, we felt that the $50 million level, when one counted the prospect of, a very good prospect of increased support at the local, State, and private sector level, would be sufficient to continue the program, yes.

Senator GRASSLEY. Well, have you accepted the argument that the $19 million will be made up at the State, local, and private level?

Mr. BECKER. I would expect, Senator, that if Federal funding is reduced, and indeed terminated in fiscal 1993, that there will be a dropoff in the total budgets for SBDCs nationwide because of the immediate dropoff in Federal funding. My hope would be if that occurs, that the value of these centers for training and counseling would be recognized by the university systems, by the States, and by the private sector resources, and that funding would be made up over time, as it was clear that Federal funding would no longer be there. This is obviously pure speculation on my part. I would hope that would be the pattern.

Senator GRASSLEY. Lastly, and again following on Senator Nunn's approach, let us just presume, although I have stated in my opening statement that I am opposed to the reduction of $19 million, but let us just suppose it does happen. In your leadership position, what will be your recommendation? Will it be a matter of cutback or will there be some other recommendations you have for keeping these programs functioning and trying to accomplish what authorization and legislation intends they accomplish?

Mr. BECKER. I am not sure I understand the question, Senator, but let me take a stab at it. As I said in my statement, it would be our intention to do everything we can with what influence we bring to bear, State-to-State in this country, to make sure that State governments, universities, and private resources understand the importance first of the small business sector; second, of it continuing to grow and contribute to the economy; and third, SBDC's critical role in seeing that happen. We would actively promote the value of SBDCs and the need for strong support at the local level to make up any reduction in Federal funds.

Senator GRASSLEY. You said you hope that there would not be any reduction of services but realistically, would you not have to say that there would be a cutback of services?

Mr. BECKER. My speculation would be that immediately after Federal funding was reduced and terminated, that there will be a dropoff in the total budget available to SBDCs nationwide. We would work hard to help SBDCs make up that dropoff and return to full operations as quickly as possible, but I think it is reasonable to assume that there would be a dropoff.

Senator GRASSLEY. Do you think it is even reasonable to assume that within a year or so that that money could be made up?

Mr. **Becker**. I do not know, sir, how many years it would take to make it up. We would hope that it could be made up as soon as possible.

Senator **Grassley**. We hope the Administration—and it is probably not your fault but whoever at OMB makes these judgments—but when they have a thought process that it could be made up, they ought to show some leadership on how that can be done, or else not make that as a follow-on suggestion. They should just be realistic and candid with us and say, that they expect this program to go by the wayside or at least operate on a level considerably below the present level of operation.

I am finished, Mr. Chairman.

Senator **Nunn**. Senator Lott.

Senator **Lott**. Thank you. I have already put my prepared statement in the record, but I want to refer to a couple of points.

We do have some 13 offices throughout Mississippi, and while I have often wondered just how much help the Small Business Administration provides the small businessmen and women, I do think these Small Business Development Centers in our State have served some good purposes. We have done some checking, and survey figures from GAO show that in Mississippi there is a 20 percent higher approval or satisfaction by the clients than the national average.

I know one client in particular last year was assisted in setting up an apparel plant in Weir, W-e-i-r, MI. And the guy still sings the praises of this Small Business Development Center, the one that he dealt with. It is a minority business that only created 26 jobs, but in a small community like Weir, it is absolutely essential. Without the help that he got from this SBDC, he probably would not have been able to get into business. So, I think they provide a very important service.

Like the others before me, I am very much concerned that we would talk in terms of totally eliminating the funds for the SBDCs. You are not talking about much money, in fact, probably an inadequate amount of money. In a State like Mississippi, which is obviously one of the poorest in the Nation, it would be awfully hard for us to come in there with private sector funds or for the universities to pick up these funds. Our universities and colleges are just struggling as it is.

So, I just want to be on record that I do not agree with that recommendation, and I will join others in supporting the maintenance of those funds and maybe even putting them back at the $50 million level.

Now, the one question I wanted to ask you had to do with the formula of distribution. I understand it is based, I guess, almost entirely on population. But I personally think more attention should be given to geographic area, need, utilization, and a whole number of factors that should be considered if we would.check the formula and adjust current methods used.

For instance the District of Columbia, which certainly has a need for these centers, but is a very compact area, gets $100,000 more a year than Mississippi, where we have 13 centers spread out over a State that is 400 miles long and 175 miles wide.

So, is any consideration being given to adjusting the formulas or how the funds we do have are distributed?

Mr. BECKER. Senator, not at this time. We are not considering a change in the foundation of that formula, which was established by Congress. We are grappling with what might happen, as was raised earlier, given the new census numbers that are due to come out, but we have not talked about a fundamental change in how the formula is calculated or how the distribution is calculated.

Senator LOTT. And you do feel like these centers for the most part are providing a needed and worthwhile service?

Mr. BECKER. Yes, sir.

Senator LOTT. Thank you, Mr. Chairman.

Senator GRASSLEY. Mr. Chairman, if Mr. Becker is not going to be at the table after GAO reports, I want to ask another question.

Senator NUNN. I was going to have him just wait until we heard from the GAO, but you can do it either way you would like.

Senator GRASSLEY. I will wait.

Senator NUNN. Why do we not hear from Mr. Ols and then we can ask questions of either one of them.

Mr. Ols, you might want to introduce your associates.

STATEMENT OF JOHN M. OLS, JR., DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT ISSUES RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY MELVIN G. McCOMBS, EVALUATOR-IN-CHARGE, AND NORMAN L. PSENSKI, EVALUATOR, GAO

Mr. OLS. Thank you, Mr. Chairman. To my immediate right is Mr. Mel McCombs and to his right is Norm Psenski. Both individuals led our study that you referred to and that Bill has referred to this morning. They are out of our Detroit Regional Office.

We are pleased to be here to discuss the report we issued last November on the results of the SBA's SBDC Program. And we are also glad to be here to assist you in your deliberations as it relates to the reauthorization of this very important program.

I would like to summarize the detailed statement I have provided to the Committee in the interest of time and try to just go over some of the highlights.

Senator NUNN. Your entire statement will be placed in the record. We have read the report too. So we appreciate the summarization.

Mr. OLS. Thank you, Mr. Chairman. What I will do is just run through some of the highlights. And one of the things I will point out at the outset, and we have heard about funding and Bill has talked about the program and the mechanics of it. One of the things our study tried to get at is measure how satisfied the customer was, how satisfied the client was. And those are the statistics I think I can share with you that will bring a different perspective to what is going on with this whole program, over the last 3 years.

In summary, we found that the SBDC Program was meeting the counseling needs of most clients. Over 69 percent of all clients were satisfied with the counseling they received; 76 percent indicated they would contact the program for future help if they needed it; and 82 percent would recommend the program to others.

Of the clients that were counseled, 62 percent were male, 81 percent were white, and about 83 percent had some college experience or a college degree. Further, most clients were in business when they contacted the SBDC Program and were in or planned to be in the retail or service industry. And I heard Bill say that they were trying to reach out into other areas of small business endeavors, which I think is a great outreach-type of idea.

I should note that we obtained our information on counseling from responses to questionnaires to 997 clients, and that was a projectable sample out of 128,000 individuals who were counseled for 1 hour or more during a 15-month period ending on March 31, 1988.

I might add, at this point, even though our report cut off with our survey results at that time, we did make a lot of contacts last spring, spring of 1989, with other centers and centers' directors to make sure that, in fact, our figures and results were still showing the same type of satisfaction.

The program offered a variety of services to clients, but primary emphasis was given to counseling and, to a lesser extent, to training. During 1986 through 1988, centers and subcenters, on an average, applied $3 to counseling for every dollar they applied to client training.

Counseling activities or services provided to clients can be basically broken down into three categories. In Attachment I to my statement, as well as in our report, we break this down in greater detail, but you can look at it in three broad categories. General planning assistance—in other words, getting ready to do or undertake a business, 76 percent of the clients received it in that category; received assistance for financial matters: 40 percent; and 48 percent received technical assistance. Granted, those total well over a 100 percent, but that is because of clients coming in and getting assistance in several categories.

About 80 percent of the centers and subcenters directors were male, 93 percent were white and about 70 percent were between the ages of 31 and 50 years of age. Most directors had a professional or graduate degree in business, and some other professional experience or had been in business themselves.

Federal funding for the SBDC Program from 1977 through 1990 totaled about $298 million. Federal funds have increased annually from $360,000 for 9 centers in 1977, to $50 million for 56 centers for fiscal year 1990.

For program years 1986 through 1988, non-Federal funds amounted to about 58 percent of the total program funding and were primarily contributed by colleges and universities, and basically they are accounting for about one-third of the total funding that goes into these programs.

To improve the program administration and operation, SBA has initiated action to determine the feasibility of multi-year approval process for center operations, and Bill referred to that. And we recommended that in our report and talked about that, and that was why we did not specifically recommend to the Administrator to do that, because they were undertaking such an endeavor.

We think that will help in the administrative cost-reduction area. That does cause, especially some of your mature centers, to keep reapplying. And they do not have much changes from one year to the next, so that will help reduce some of the costs that we are going to outlay for these programs.

In addition, Bill also referred to the on-site reviews that are done. That is required every 2 years under legislation. We found that all centers and SBA officials in the association believe those kind of reviews do help, but whether or not you have to conduct them every two years as mandatorily required is a question that has been raised.

You could look at mature centers and say, maybe—as long as there are no indicators that show they have a problem—maybe we only go back every 3 or 4 years. If we have problems with certain centers, maybe we ought to go every year. So there needs to be some flexibility in that particular process, and we are glad to see that SBA is looking at that.

Basically, in conclusion, Mr. Chairman, we found that the centers are meeting the counseling needs of most clients. A high percentage of clients are satisfied with the help they received and believe they have been assisted quickly. They also believe they received the kind and amount of assistance they wanted, and most would use the program again if they had similar needs in the future.

Also, we are pleased to see the improvements that are being made by SBA, and we believe those type of improvements should enhance the services to clients, which is, I believe, the goal of the program and SBA.

Basically, that concludes my summary remarks, and we will be glad to answer any questions you or the Members might have.

[The prepared statement of Mr. Ols follows:]

United States General Accounting Office

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SMALL BUSINESS: Development Centers Meet Counseling Needs of Most Clients

Statement of
John M. Ols, Jr., Director
Housing and Community Development Issues
Resources, Community, and Economic Development
Division

Before the
Committee on Small Business
United States Senate

GAO/T-RCED-90-65

GAO Form 160 (12/87)

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our report[1] on the Small Business Administration's (SBA) Small Business Development Center (SBDC) program, prepared at the request of this Committee. We are glad to assist the Committee in its deliberations on reauthorizing federal funding for this program.

In summary, we found the following.

-- Most clients counseled were satisfied with the assistance they received. In addition, most clients would use program services again if they had similar needs in the future and would recommend the program to others.

-- The SBDC program offered a variety of services to clients, but the primary emphasis was given to counseling and, to a lesser extent, training.

-- Most clients who received program counseling were white males with at least some college education. Further, most clients were in business when they contacted the SBDC program, and were in or planned to be in the retail or service industry.

-- Federal funding from 1977 through fiscal year 1990 totaled about $298 million. Funds increased annually from $360,000 for 9 centers in fiscal year 1977 to $50 million for 56 centers in fiscal year 1990. For program years 1986 through 1988, nonfederal amounts represented about 58 percent of the total program funding and were primarily contributed by colleges and universities.

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[1] Small Business: Development Centers Meet Counseling Needs of Most Clients (GAO/RCED-90-38BR, Nov. 22, 1989).

-- To improve program administration and operation, SBA has initiated action to determine the feasibility of a multiyear approval process. We believe this change from annual approval offers the potential to reduce administrative costs. Additionally, SBA conducts on-site reviews at the centers, which appear useful to both SBA and center directors.

Information on client counseling came from responses to questionnaires sent to a projectable sample of 997 counseled clients. Information on program operations, including general characteristics, staffing, funding, and administration, came from responses to questionnaires sent to all center and subcenter directors responsible for implementing the program at the state and local level. In addition to using questionnaires, we conducted follow-up interviews with center directors in five states. We also interviewed program officials and obtained funding and other program statistics at SBA headquarters.

PROGRAM BACKGROUND

The SBDC program was started in 1977 to provide business-related counseling, training, and specialized assistance to strengthen the small business community and contribute to the economic growth of the communities served.

The program is implemented at the state and local level through a nationwide network of Small Business Development Centers and Subcenters, which are usually operated by colleges or universities. Centers operate on the basis of annual cooperative agreements with SBA to deliver services within a state or other designated geographical area. As of March 1990, the program included 56 centers and about 560 subcenters operating in 49 states, the District of Columbia, Puerto Rico, and the Virgin Islands.

Centers receive program funding from both federal and nonfederal sources. To be eligible for federal funds, centers must provide an equal matching amount from nonfederal sources of at least 50 percent cash and not more than 50 percent indirect costs and in-kind contributions. Centers and subcenters coordinate their efforts with a wide range of other organizations and programs that address small business needs.

CLIENTS SATISFIED WITH PROGRAM ASSISTANCE

Our survey showed that SBDC clients received counseling on a variety of topics. Seventy-six percent received counseling on general planning assistance, 48 percent on technical matters, and 40 percent on financial matters. (See attachment I.) Overall, 69 percent of the clients were satisfied with the counseling they received and 17 percent were not. In addition, 76 percent indicated they would contact the program for future help if needed, and 82 percent would recommend the program to others. (See attachment II.)

Results of our survey also showed that 63 percent of the counseled clients received all or most of the assistance they wanted. (See attachment III.) Most clients received relatively few hours of actual counseling. For example, 60 percent spent 3 hours or less working with program staff. Further, clients were satisfied with the time required to arrange their first meeting with program staff, and with the overall time taken to get assistance.

Sixty-four percent of the counseled clients indicated that they were satisfied with the kinds of assistance received. Most considered the assistance they received to be useful in meeting their business-related needs and believed that the assistance increased their business-related skills and knowledge.

PROGRAM EMPHASIZES COUNSELING

Center directors reported to us that their programs provided a wide range of services to clients such as counseling, training, market analysis, and library resources. However, almost all of the centers gave their greatest emphasis to counseling. In 1986 through 1988, centers and subcenters on average applied about $3 to counseling for every $1 they applied to client training--the area which received the second greatest emphasis. The median counseling cost per client was about $300.

Most client counseling was provided by in-house staff, faculty, and students and, to a lesser extent, by private sector consultants. Centers and subcenters employ professional and support staff on both a full-time and part-time basis. The average number of staff was 20 for centers and 5 for subcenters. Center and subcenter directors were most often male, white, and 31 to 50 years old. Most had attained a professional or graduate degree and had several years prior experience in business-related activities; the most frequent type of experience was in private industry.

While most centers and subcenters used private sector consultants to some extent, they were used to counsel 20 percent or less of their clients. Many centers and subcenters had an upper dollar limit that could be paid to consultants. The average dollar limit per hour was between $30 and $40.

CHARACTERISTICS OF CLIENTS COUNSELED

Client survey results showed that 62 percent of clients were male and 81 percent were white. Nearly half were from 31 to 40 years old and about 83 percent had some college experience or a college degree. In addition, about half were in business when they contacted the program and about two-thirds were in business at the time we contacted them. Most clients were in or planned to be in the retail or service sector. Of those in business when we contacted them, about three-fourths had one to four full-time employees. Few clients wanted or received assistance in obtaining government contracts. Of those who received this assistance, about a third were minorities.

SOURCES OF PROGRAM FUNDING

Centers receive program funding from SBA through annual cooperative agreements. In addition, they receive funding from state and local sources. Through fiscal year 1990, federal funds made available for the SBDC program totaled about $298 million; funding has increased annually from $360,000 for 9 centers in fiscal year 1977 to $50 million for 56 centers in fiscal year 1990.

In program years 1986 through 1988, nonfederal amounts represented about 58 percent of the total program funding and were primarily contributed by colleges and universities. During the same period, contributions from states represented about 14 to 17 percent of total program funding, increasing from $8.5 million to $13.8 million.

To obtain federal SBDC program funding, SBA requires centers to annually submit detailed proposals describing their programs for the coming year. SBA and the Association of Small Business Development Centers believe that the current annual approval process is a time-consuming administrative effort, particularly for established centers whose programs do not change significantly from year to year. To reduce centers' annual administrative burden associated with applying for funds, SBA is considering the feasibility of using a multiyear approval process that would allow

SBA to approve proposals covering a 3-year rather than a 1-year period for long-established centers; funding would remain subject to annual appropriations being provided. We believe the multiyear approval process offers potential for reducing the administrative burden associated with an annual proposal process, thus making additional staff time available to serve clients.

ON-SITE REVIEWS ARE USEFUL

SBA is required by law to conduct on-site reviews of centers' operations at least every 2 years. The on-site review process requires each center to prepare a written self-study of its operations prior to arrival of a review team, which is composed of one or two SBA representatives and one or two SBDC personnel from other centers. Using the completed self-study as a guide, the review team performs an on-site evaluation of the center's operations, prepares a written report, and, where appropriate, develops recommendations for program improvements. As of March 1990, all of the centers had been reviewed at least once.

SBA, the Association, and center directors believe that on-site reviews are generally useful. They believe these reviews provide a means of exchanging ideas and provide data on program operations not otherwise available. Further, center directors advised us that recommendations made by the review teams are useful and are generally implemented.

SBA and Association officials and some center directors also told us that programs that have been operating for several years do not change significantly from year to year; therefore, they questioned the need for conducting on-site reviews every 2 years. SBA preferred a system that based frequency on factors such as the age of center operations or indications of problems. Others suggested reviews be conducted once every 3 to 4 years for centers that have been operating for several years.

We believe that on-site reviews are serving a useful purpose for SBA and center directors even though both have questioned the frequency of these reviews. We believe on-site reviews provide SBA with details on individual centers' operations that are not otherwise available and also provide an effective forum for the exchange of ideas among those responsible for implementing the SBDC program.

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In summary, Mr. Chairman, we found that Small Business Development Centers are meeting the counseling needs of most clients. A high percentage of clients are satisfied with the help they received and believe they were assisted quickly. They also believe that they received the kind and amount of assistance they wanted, and most would use the program again if they had similar needs in the future. Also, the improvements being considered by SBA should further enhance the services provided by centers.

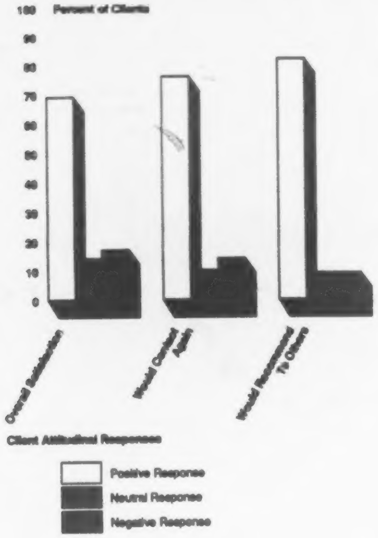
Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions you or Members of the Committee may have.

Counseling Requested And Received By SBDC Clients

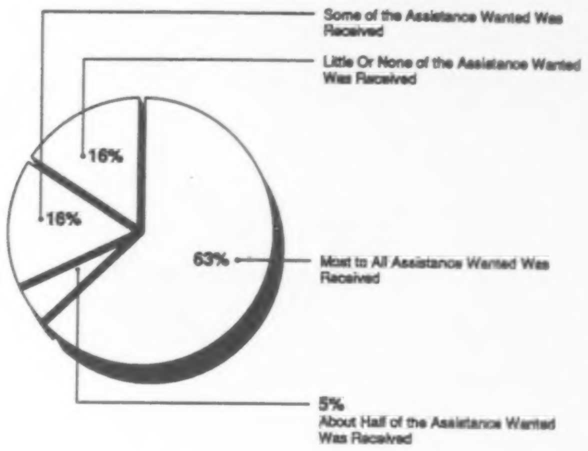
	Percent of clients[a]	
Topic	Assistance wanted	Assistance received
General planning:		76
General business advice	56	54
Starting a business	57	47
Changing a business	5	3
Advertising/marketing/developing a product/service overseas	7	4
Advertising/marketing/developing a product/service in the United States	35	25
Financial:		40
Filling out loan applications/ other forms	19	11
Applying for government contracts/ grants	16	7
Requesting a loan from the center	18	4
Identifying sources of money/capital	32	17
Help with accounting or bookkeeping	24	17
Technical:		48
Legal advice	15	9
Tax information	20	16
Use of computers/special equipment	8	5
Business training	13	9
Referrals to other sources for assistance	33	26
Business-related publications	17	15
Other	6	4

[a] Percentages exceed 100 because some clients wanted and/or received assistance in more than one category.

Clients Had Positive Attitudes About SBDC Counseling



Clients Generally Received The Amount of Assistance Wanted



Senator NUNN. Thank you very much, Mr. Ols.

Would it be fair to say that you believe the SBDC Program is now working well, No. 1, and No. 2, that the changes that SBA is now talking about, regarding regulations, onsite inspections, and so forth, will move the program in the right direction?

Mr. OLS. To the latter point, I think, yes, they are in the right direction. As far as working well, based on the results of the clients we talked to in the survey we did over that 15-month period, I would have to say yes.

Senator NUNN. Do you find any problem in the way the money is being managed?

Mr. OLS. No, we did not look at the efficiency of each SBDC center.

Senator NUNN. It was a results-oriented survey?

Mr. OLS. Yes, it was, Mr. Chairman.

Senator NUNN. I have read a lot of GAO reports, and I hear testimony on them all the time. I do not usually see many this favorable. Is this unusual? Have I been overlooking the good ones?

Mr. OLS. No, we reported in a very objective manner, whichever way that comes out. And this one, everything we found, showed it was working in the right direction.

Senator NUNN. That is unusual for a Federal program, is it not? [Laughter.]

Mr. OLS. No comment, Mr. Chairman.

As you notice, Mr. Chairman, I might add that I am Director of Housing and Community Development, and I will leave it at that. [Laughter.]

Senator NUNN. I understand.

Senator Grassley.

Senator GRASSLEY. Well, thank you very much.

In regard to the onsite inspections by SBA and consultations from SBA, it has been suggested that these reviews should be conducted less frequently for centers that have been operating for several years. Would you agree or disagree with this suggestion?

Mr. OLS. Yes, I would agree as long as you had some kind of indicator or some kind of reports that would come in to point out if there is something starting to slip that you would need to make a visit sooner than that. I do not think you can just arbitrarily set a flat figure on that.

Senator GRASSLEY. Now I am going to ask Mr. Becker and Mr. Ols roughly the same question. From the standpoint of white male participation—62 percent of the SBDC clients were male and 81 percent were white—what is the Agency doing to encourage more use of SBDCs by women and minorities?

From your standpoint, Mr. Ols, the same question, but what suggestions do you have beyond what SBDCs are already doing unless it is a ratification of their present position as what they ought to be doing?

And I would start with Mr. Becker.

Mr. BECKER. Thank you, Senator. I would be pleased to answer. When I came in about a year ago to SBA, one of the things I detected, and I think the Administrator also detected, was a certain cellular state of mind in our programs. In other words, there is an insulation, it seemed, of our SBDC Program from our MSBCOD

Program, the minority program, or from our Office of Women's Business Ownership.

And one of the things we have tried to do is break down these barriers between programs and get the programs communicating about how they can cross-fertilize one another's goals and work together to achieve those goals.

And Janice Wolfe has been very cooperative in that. In fact, this year, for the first time, our program announcement was subjected to review by all our program managers, in the Women's Business Program, in the Minority Business Program, to have them comment on contents of that program announcement so that we could suggest to SBDC some of the directions in which we hope their programs will move.

Now, specifically, in regard to the minority programs, the testimony mentions two pilot projects that we have undertaken with the Office of Minority Small Business Development. One of them concerns the provision of 7(j) counseling to minority-owed firms by SBDCs, and there are a couple of SBDC centers now engaged in providing that technical assistance.

The other is to encourage more SBDCs to counsel 8(a) minority companies in the final stages of the 8(a) Program to help them graduate from that program.

Those are a few of the things we are undertaking, but we are very actively looking for, as I said, this kind of cross-cutting of programs to make sure that the SBDCs are responsive to the needs of minorities and women.

Mr. OLS. I guess I would endorse what Bill is saying, about where they are going with that, because I think the statistics would show we need to reach out more. But there are other programs, and as he has mentioned, there are several that are geared strictly toward the minority small business groups, which may account for some of that. And that is just one thing the statistics might show because we do not have any records to say how they are reaching out and we did not study that.

One of the things that might be of interest, and maybe the association or the Senators might want to discuss this even further—it was not part of our study—is whether the subcenters, which are located out a way from maybe major metropolis urban areas, might be able to reach out more to minority groups in certain areas.

And that would just be off the top of my head as far as the suggestion, because we have not explored that at all. But I guess I would encourage SBA to reach to those clients if they could.

Senator GRASSLEY. Mr. Chairman, I am done.

Senator NUNN. Thank you very much.

Let me ask one other question of Mr. Becker or Ms. Wolfe, whomever would like to field it.

Under the leadership of Senators Levin and Dixon, who like myself, are Members of the Armed Services Committee, a Procurement Technical Assistant Program was established by the 1986 DOD Authorization Act to assist small business concerns to market to the Military Services and to the Defense Agencies.

This program has been consistently supported in both Houses by the Armed Services Committees and the Defense Appropriations Subcommittees. SBDCs have tried to expand their services to the small business community, and some have established Procurement Technical Assistance Programs. Some have competed for cooperative agreements under the DOD Program, so-called PTA Program, which is managed by the Defense Logistics Agency.

Recently, concerns were brought to my attention regarding interpretations of the enabling legislation for the SBDC Program, which might adversely hamper the ability of SBDCs to compete for the DOD PTA awards. It is my understanding this situation has been resolved, but I would like to know from you whether you believe a statutory clarification is needed in either the Small Business Act, or in Title 10 relating to the DOD PTA Program.

Mr. BECKER. With your permission, Mr. Chairman, I will have Ms. Wolfe answer.

Senator NUNN. Surely.

Ms. WOLFE. Yes, I am very aware of this and I have worked with people at DLA and with the SBDCs in trying to clarify it. My understanding is—but I do not have it in writing—that we probably have resolved the issues. But it would help, I think, to change the legislation.

Senator NUNN. It would help to change the statute?

Ms. WOLFE. Yes, it would. We at SBA have a different interpretation of some of the language than the DOD people have.

Senator NUNN. Which legislation needs changing?

Ms. WOLFE. I would have to check into that.

Senator NUNN. Would you have your counsel get in touch with our staff and let us know, maybe by letter, as to what you think needs to be changed statutorily?

Ms. WOLFE. We would. We have, we came to an agreement over the phone last week, and I am supposed to receive some information in writing from the people at DLA. But I think if you change the legislation, then we cannot argue about interpretation any more.

Senator NUNN. I do not think anyone disagrees with letting SBDCs participate in the PTA Program, do they? I mean, you would agree with that?

Ms. WOLFE. Oh, I totally agree with that.

Senator NUNN. They would be the logical group to compete for these PTA awards, would they not?

Ms. WOLFE. Yes, they are.

Senator NUNN. OK, any other questions, Senator Grassley.

Senator GRASSLEY. No, I have no more questions.

Senator NUNN. Thank you, Mr. Becker, Ms. Wolfe, Mr. Ols, Mr. McCombs, Mr. Psenski. We appreciate all of you being here this morning and thank you for your GAO report.

Mr. Becker, we look forward to continuing to work with you and Ms. Wolfe.

Our next panel will be composed of four individuals who have a great deal to do with the SBDC Program. First, Mr. Robert Bernier, State Director of Nebraska Business Development Center, University of Nebraska in Omaha. Second, Dr. Charles B. Knapp, president of the University of Georgia in Athens, GA. Dr. Knapp, we are delighted to have you this morning. Mr. Ron Manning, Director of Iowa Small Business Development Center, Iowa State University, and fourth, Mr. William Pinkovitz, State Director, Wisconsin Small Business Development Center, University of Wisconsin.

We appreciate all of you being here. We appreciate the work your SBDCs are doing. Mr. Bernier, I will ask you to lead off and then we will just go right down the line.

STATEMENT OF ROBERT E. BERNIER, STATE DIRECTOR, NEBRASKA BUSINESS DEVELOPMENT CENTER, UNIVERSITY OF NEBRASKA AT OMAHA, OMAHA, NE

Mr. **Bernier**. Thank you, Senator. I have condensed my remarks and, with your permission, would ask the whole testimony I wrote be admitted.

Senator **Nunn**. It will be inserted in full. At this point, I will incorporate in the record all the full statements submitted by each of the witnesses, without objection.

Mr. **Bernier**. Thank you for inviting me to speak today on behalf of Small Business Development Centers. As you know, 10 years have passed since the adoption of the Small Business Development Center Act. They have been productive years, productive because of the wisdom of the legislation, because of the support of State and university sponsors and because of the dedication of the men and women who serve in our Small Business Development Centers.

I am the only one still active now among those who directed the nine pilot centers existing when the program was authorized in 1980. It has been a joy to see the SBDC Program grow to its current level. This growth was made possible because of the wisdom of Congress in establishing a funding formula and in establishing levels of funding through our growth period that avoided confrontation among the States.

Though varied in their emphasis, SBDCs share a strong commonality. This commonality, as the GAO Report affirms, is a strong emphasis in counseling. In the study done for the association by the University of Georgia, it was found that SBDC clients experienced sales growth and employment growth at a rate significantly greater than that of the small business population as a whole.

Useful as this data is, however, it does not begin to tell the story, the story of thousands who have been helped to avoid bankruptcy or business failure, the story of those who have been saved sleepless nights because they have learned new business skills that have given them new confidence, the story of those who have been encouraged when no one else would lend a hand.

People like Larry Anderson of Freemont, NE, who made the trip to our office in Omaha back in January 1987 with an idea. He met with Mary Woita, our venture capitalist specialist. He came with a scrap of paper that was just prototype.

Later, Mary would tell me that she did not think much of his idea or of his prototype. But I have told our counselors that in the 11 years that I have been in the business, I have learned that I do not know what a good business idea is. I used to think it was our job to discourage people from risking their money on what we, in our wisdom, determined was a sure failure. I do not think that any more. Entrepreneurs get enough discouragement from family and friends and enemies without the Government subsidizing another source.

Put another way, it is not our job to take away from small businessowners in this country the freedom to fail. It is our job to put before them the facts as best as we can determine them, to help them learn the business skills they need, to encourage them to make their own informed decisions. We are teachers.

So Mary Woita did not turn Larry Anderson away, she gave him encouragement and advice; she involved other counselors at the center. Today, this is what Larry's idea looks like. It is laminated paper that rolls up into this little megaphone. This is not yet a success story. It is only available right now at Omaha Lancers hockey games, where it sells for a dollar a copy. It costs Larry Anderson more than 60 cents a copy to make them. That is too much. We are now working—which is a technology transfer problem—to see if we can help him make them less expensively. He stops by our office about once a week for a word of advice, a word of encouragement.

I do not know if FANOIZE, the small megaphone, will succeed. That is part of the dynamic of working at a Small Business Development Center. It can take months, even years, to see if your efforts bear fruit but that is how it is for small businesses too.

Often you never know, clients come in, you may work with them a month or more, and then they are gone. You lose touch, but that is how it is for teachers, too.

And who knows, maybe some day a Georgia Bulldog fan or an Iowa Hawkeye fan or even a Nebraska Cornhusker fan will get a kick out of yelling for his favorite team out of a FANOIZE.

The small businessowner is not the only one, of course, who learns. Each of us working in a Small Business Development Center learns with each client we counsel. As the SBDC Program has matured, so have those of us who have worked in it many years. With that experience comes a responsibility to pass on our lessons.

In that effort, the association has launched a significant Professional Development Program. In addition to these professional development efforts, the association has developed partnerships with the private sector to offer our member SBDCs services that they might not otherwise be able to afford.

I am delighted we are able to offer these needed services. For too many years, the Association has been forced to focus its efforts on questions of survival and management of the SBDC Program. We want to acknowledge a renewed sense of partnership from our sponsoring agency. We are disappointed in the Administration's budget request for our program. However, we are encouraged by the recognition of our program by the Administrator and the cooperation we have received from the office of SBDCs.

Chief among our concerns is that that which has been mentioned by you today, and that is the SBDC funding formula. The formula under which we currently operate was established in 1980. It is a formula that has served us well. Each State has felt the impact of inflation over the decade, especially those who entered into the program in earlier years, but that problem has been partially offset by increased State contributions to the program.

I might say that this trend of increased State funding is noted in the GAO Report but the report understates the level of support because it does not include support provided by sponsoring universities.

We have always believed that this partnership with the States is an exemplary part of the SBDC Program. It is a model of a coordinated national effort that should be encouraged rather than discouraged.

Two forces now threaten this model. The first is an impact of the 1990 census. We have computed the impact of this census based on projected population figures by the Census Bureau. It shows that 30 States would experience a reduction in their allocations. These States are the States that have been hardest hit by the dislocations in our economy and are, it could be argued, those that most need the SBDC Program.

The second force is the program funding strain on the States with the smallest level of funding. Seven States now receive the minimum level of $200,000. Eight others have funding levels below $500,000 and half of these will experience declines with the new census. This funding level is not sufficient to operate a statewide program, particularly as these States are predominantly rural, large land mass States.

We suggest a revision in the formula that would alleviate these problems by providing a maximum allocation of $200,000 per State plus its pro rata share of $65 million. This formula would recognize a uniform cost of establishing and maintaining a statewide system with multiple outreach centers——

Senator NUNN. You said maximum. Did you mean maximum?

Mr. BERNIER. That there be $200,000 base funding, that every State would receive regardless of population, then plus that a pro rata share of $65 million.

Senator NUNN. OK.

Mr. BERNIER. We have made great strides with your support and that of many others in our first decade. We are confident of our ability to meet the needs of small businesses in the 1990s. We are always looking for new resources, for new ideas, for new ways to serve our clients. We believe our strength lies in the singleness of our mission: To serve the small businessowner.

Others have come and will come to you with worthwhile goals that touch on what we do. They may want to revitalize rural America or increase exporting or provide assistance in Government procurement, or expand opportunities for women in business, or expand opportunities for minorities in business, or help Day-Care Center operators, or help some home-based businesses. We want all of these things too. But the first thing we want, the most important thing we want, is to help the small businessowner. If we do that, the rest will happen.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Bernier follows:]

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STATEMENT OF ROBERT E. BERNIER

STATE DIRECTOR

NEBRASKA BUSINESS DEVELOPMENT CENTER

AND

PRESIDENT

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

before the

U.S. SENATE SMALL BUSINESS COMMITTEE

April 18, 1990

SUMMARY STATEMENT OF ROBERT E. BERNIER

President, Association of Small Business Development Centers
before the U.S. SENATE SMALL BUSINESS COMMITTEE
April 18, 1990

Ten years have passed since the adoption of the Small Business Development Center Act. On the whole, they have been productive years. There are now 54 centers with a total of 671 offices serving small businesses in 49 states, the District of Columbia, Puerto Rico and the Virgin Islands.

Though varied, SBDCs share a strong emphasis on counseling. The business owner, as the GAO report affirms, appreciates the attention, believes that it is helpful, and would recommend the service to other small business owners.

In another study by the University of Georgia it was found that SBDC clients experience sales growth and employment growth at a rate significantly greater than that of the small business population as a whole.

As the SBDC program has matured so have those of us who have worked in it many years. With that experience has come a responsibility to pass on to those who are joining SBDC staffs our lessons. In that effort, the ASBDC has launched a significant professional development program.

For many years the ASBDC has been forced to focus its efforts on questions of survival and management of the SBDC program. We gratefully acknowledge a renewed sense of partnership from our sponsoring agency, the Small Business Administration. Though we are disappointed in the Administration's budget request for 1991, we are encouraged by the recognition of our program by the Administrator and the cooperation we have received from the Office of SBDCs.

Chief among our concerns is something only you can solve. That is the SBDC funding formula. It is a formula that has served us well. We have always believed that this partnership with the states is an exemplary part of the SBDC program. It is a model of a coordinated national effort that should be encouraged rather than discouraged.

Two forces now threaten this model. The impact of the 1990 census and the severe strains on the lowest funded states. Projected Census Bureau figures show that 30 states would experience reductions in their allocations. These are the states that have been hardest hit by the dislocations in our economy. And are those that most need the SBDC program. Seven states now receive the minimum funding of $200,000. Eight others have funding levels below $500,000 and half of these will experience declines with the new census. This funding level is not sufficient to operate a state-wide program. Particularly, as these states are predominantly rural, large land mass states.

We suggest a revision in the funding formula that would provide a maximum allocation of $200,000 per state plus its percentage of the population times $65 million. This formula recognizes a uniform cost of maintaining a statewide system with multiple outreach centers and the additional costs of serving various population levels.

Good Morning. I'm Bob Bernier, state director of Nebraska's small business development center and president of the Association of Small Business Development Centers.

Thank you for inviting me here today to speak on behalf of small business development centers. As you know, ten years have passed since the adoption of the Small Business Development Center Act. In that time we have encountered difficulties - some of which have required the attention of this committee - and we have enjoyed successes. On the whole, I'm proud to say, they have been ten productive years.

They have been productive because of the wisdom of the legislation, because of the support of state and university sponsors, and because of the dedication of the men and women who serve in our small business development centers.

Program Growth

I am the only one still active now among those who directed the nine pilot centers existing when the program was authorized in 1980. It has been a joy, an amazement for me, to see the SBDC program grow to its current level of 54 centers with a total of 671 offices serving small businesses in 49 states, the District of Columbia, Puerto Rico and the Virgin Islands.

This growth was made possible because of the wisdom of Congress in establishing a funding formula - and in establishing levels of funding through our growth period - that avoided confrontation among the states. Each state has been allowed the freedom to choose its own structure -- one that best meets its individual need.

The GAO report notes that, while all SBDCs emphasize counseling and training, the emphasis on other types of programs varies. In Nebraska, for instance, we do not have a procurement assistance program at our SBDC because the State funds a procurement assistance program in its Department of Economic Development. At the same time, however, our State funds the Nebraska SBDC to operate its venture capital network. This ability to tailor program emphasis to each State's need is part of what we mean when we talk about partnership.

Counseling

Though varied in their emphasis, Small Business Development Centers share a strong commonality. This commonality, as the GAO report affirms, is a strong emphasis on counseling -- one-on-one with the business owner. And the business owner, again affirmed in the GAO report, appreciates the attention, believes that it is helpful, and would recommend the service to other small business owners.

On a less subjective level we can demonstrate that small business owners and the national economy benefit from this service.

In a study done for the Association of Small Business Development Centers by the University of Georgia it was found that SBDC clients experience sales growth and employment growth at a rate significantly greater than that of the small business population as a whole.

This study of clients assisted by 27 SBDCs in 1986 found that they had contributed an additional $74 million in state sales and federal income taxes when controlled for their expected performance.

I have included data from this study as an addendum to these remarks. They show better sales and employment performance by SBDC clients than by the general small business population as a whole in every state.

The Association has commissioned a comparative study for 1987 clients so that we may continue to monitor SBDC performance as data becomes available on SBDC programs that have started operations in the last several years.

Useful as this data is, however, it doesn't begin to tell the story. The story of thousands who have been helped to avoid bankruptcy or business failure. The story of those who have been saved sleepless nights because newly learned business skills have given them confidence. The story of those who have been encouraged when no one else lent a hand.

People like Larry Anderson of Fremont, Nebraska who made the trip to our office in Omaha back in January 1987 with an idea. He met with Mary Woita, our venture capital specialist. He came with a scrap of paper that was his prototype. Later, Mary would tell me that she didn't think much of his prototype or his idea. But, I've told our counselors that after 11 years in this business I have learned that I don't know what is or isn't a good business idea.

I used to think that it was our job to discourage people from risking their money on what we, in our wisdom, determined was a sure failure. I don't think that anymore. Entrepreneurs get enough discouragement from family and friends and enemies without the government subsidizing another source.

Put another way, it isn't our job to take away from small business owners in this country the freedom to fail. It is our job to put before them the facts as best we can determine them, to help them learn the business skills they need, to encourage them to make their own informed decisions. We are teachers.

So Mary Woita didn't turn Larry Anderson away. She gave him encouragement and advice. She involved other counselors at the Center. Today, this is what Larry Anderson's idea looks like. It is laminated paper that rolls into a cone with built in handles to form a small megaphone.

This is not yet a success story. It is only available right now at Omaha Lancers hockey games where it sells for a dollar a copy. It costs Larry Anderson more than 60 cents apiece to make them. That is too much. We are now working with him to see if they can be made less expensively. He stops by our office or calls about once a week -- for a word of advice, a word of encouragement.

I don't know if FANOIZE, The Small Megaphone, will succeed. That is part of the dynamic of working at a small business development center. It can take months, even years to see if your efforts bear fruit. But that's how it is for small business owners, too. Often, you never know. Clients come in. You may work with them a month or more and then their gone. You lose touch. But that's how it is for teachers, too. And who knows? Maybe someday a Georgia Bulldog fan or an Iowa Hawkeye fan or even a Nebraska Cornhusker fan will get a kick out of yelling for his favorite team through a FANOIZE.

The ASBDC

The small business owner isn't the only one, of course, who learns. Each of us working in a small business development center learns with each client we counsel. As the SBDC program has matured so have those of us who have worked in it many years. With that experience has come a responsibility to pass on to those who are joining SBDC staffs our lessons.

In that effort, the Association of Small Business Development Centers has launched a significant professional development program.

Among its elements:

* ASBDC publishes a monthly newsletter for all state directors and subcenter directors which covers activities of the Association and developments in the small business community;

- ASBDC sponsors Small Business Forum, a refereed journal published by the University of Wisconsin that covers business management issues and SBDC management and counseling issues as well;
- ASBDC recently published a new State Directors Guide Book, a resource manual for new state directors;
- The ASBDC Education Committee has expanded the number of professional development seminars at its annual meetings. The next meeting, to be held in October at Charleston, West Virginia, will include seven such seminars; and
- We are making plans to offer regional professional development seminars, as well. Four southeastern states and six northeastern states have made plans to conduct regional seminars this spring.

In addition to these professional development efforts, the Association of Small Business Development Centers has developed partnerships with the private sector to offer our member SBDCs services they might not otherwise be able to afford. Among them is a partnership with IBM and Lotus Development Corporation to offer personal computer training and a partnership with the Small Business Foundation to offer a guidebook on exporting.

I am delighted that we are able to offer these needed services. For too many years the Association has been forced to focus its efforts on questions of survival and management of the SBDC program. We want to gratefully acknowledge to you a renewed sense of partnership from our sponsoring agency, the Small Business Administration. Though we are disappointed in the Administration's budget request for our program, we are encouraged by the recognition of our program by the Administrator and the cooperation we have received from the Office of SBDCs. As evidence of that cooperation, we have been notified that project officers will participate in our annual meeting in October. This is the first time in five years that project officers have been allowed to meet with SBDC directors to discuss mutual problems and concerns.

Budget Formula

Chief among those concerns is something only you can solve. That is the SBDC funding formula. The formula under which we currently operate was established in the 1980 law. It is a formula that has served us well. A state's maximum allocation is its percentage of the U.S. population times $65 million with a minimum level of $200,000.

This formula assured each state its fair share and thus promoted a harmonious relationship among the SBDCs and an orderly growth for the program.

Each SBDC has felt the impact of inflation over the decade, especially those that entered into the program in the earlier years. But, that problem has been partially offset by increased state contributions to the program. This trend of increased state funding was noted in the GAO report, but, the report understates the level of state support because it does not include support provided by sponsoring universities. Several states allocate funds to their SBDC through line items in the university budget.

We have always believed that this partnership with the states is an exemplary part of the SBDC program. It is a model of a coordinated national effort that should be encouraged rather than discouraged.

Two forces now threaten this model. The first, and most important, is the impact of the 1990 census. We have computed the impact of the census based on projected population figures per state by the Census Bureau. This computation is included in this statement as an addendum. It shows that 30 states would experience a reduction in their allocations.

These states are the states that have been hardest hit by the dislocations in our economy. And are, it could be argued, those that most need programs like the SBDC program. Among them are many of the states that have already made the most significant commitments in state funding.

The second force is the program funding strain on the states with the smallest levels of funding. Seven states now receive the minimum funding of $200,000. Eight others have funding levels below $500,000 and half of these will experience declines with the new census. This funding level is not sufficient to operate a state-wide program. Particularly, as these states are predominantly rural, large land mass states.

We suggest a revision in the funding formula that would alleviate these problems for the SBDC program's next decade. Our suggestion is a revision that would provide a maximum allocation of $200,000 per state plus its percentage of the population times $65 million. This formula would recognize a uniform cost of establishing and maintaining a statewide system with multiple outreach centers and the additional costs of serving various population levels.

Serving the Client

We have made great strides, with your support and that of many others, in our first decade. We are confident of our ability to meet the needs of small businesses in the 90s. We are always looking for new resources, for new ideas, for new ways to serve our clients. We believe our strength lies in the singleness of our mission -- to serve the small business owner.

Others have come and will come to you with worthwhile goals that touch on what we do. They may want to revitalize rural America, or increase exporting, or provide assistance in government procurement, or expand opportunities for women in business, or expand opportunities for minorities in business, or help day care center operators, or help home-based businesses. We want all of those things, too.

But, the first thing we want -- the most important thing we want is to help that small business owner. If we do that, the rest will happen.

STATE	1980 (000s) POPULATION	1990 (000s) POPULATION	80-90 % CHANGE	ESTIMATED 1990+ CAP	CURRENT CAP	CAP CHANGE
ALABAMA	3,894	4,118	5.75%	$1,063,271	$1,098,500	($35,229)
ALASKA	402	527	31.09%	200,000	200,000	$0
ARIZONA	2,718	3,556	30.83%	918,162	767,000	$151,162
ARKANSAS	2,286	2,406	5.25%	621,231	643,500	($22,269)
CALIFORNIA	23,668	29,063	22.79%	7,504,091	6,000,000	$1,504,091
COLORADO	2,890	3,317	14.78%	856,452	819,000	$37,452
CONNECTICUT	3,108	3,239	4.21%	836,313	877,500	($41,187)
DELAWARE	594	673	13.30%	200,000	200,000	$0
DISTRICT OF COLUMBIA	638	604	-5.33%	200,000	815,710	($615,710)
FLORIDA	9,746	12,671	30.01%	3,271,663	2,756,000	$515,663
GEORGIA	5,463	6,438	17.85%	1,662,297	1,540,500	$121,797
HAWAII	965	1,112	15.23%	287,119	273,000	$14,119
IDAHO	944	1,014	7.42%	261,816	266,500	($4,684)
ILLINOIS	11,427	11,658	2.02%	3,010,106	3,230,500	($220,394)
INDIANA	5,490	5,593	1.88%	1,444,117	1,576,290	($132,173)
IOWA	2,914	2,840	-2.54%	733,290	825,500	($92,210)
KANSAS	2,364	2,513	6.30%	648,859	669,500	($20,641)
KENTUCKY	3,661	3,727	1.80%	962,315	1,033,500	($71,185)
LOUISIANA	4,206	4,382	4.18%	1,131,436	1,189,500	($58,064)
MAINE	1,125	1,222	8.62%	315,521	318,500	($2,979)
MARYLAND	4,217	4,694	11.31%	1,211,995	850,000	$361,995
MASSACHUSETTS	5,737	5,913	3.07%	1,526,742	1,618,500	($91,758)
MICHIGAN	9,262	9,273	0.12%	2,394,297	2,619,500	($225,203)
MINNESOTA	4,076	4,353	6.80%	1,123,948	1,150,500	($26,552)
MISSISSIPPI	2,521	2,621	3.97%	676,744	715,000	($38,256)
MISSOURI	4,917	5,159	4.92%	1,332,058	1,391,000	($58,942)
MONTANA	787	806	2.41%	208,110	221,000	($12,890)
NEBRASKA	1,570	1,611	2.61%	415,962	442,000	($26,038)
NEVADA	800	1,111	38.88%	286,861	227,500	$59,361
NEW HAMPSHIRE	921	1,107	20.20%	285,828	260,000	$25,828
NEW JERSEY	7,365	7,736	5.04%	1,997,442	2,080,000	($82,558)
NEW MEXICO	1,303	1,528	17.27%	394,531	370,500	$24,031
NEW YORK	17,558	17,950	2.23%	4,634,705	4,959,500	($324,795)
NORTH CAROLINA	5,882	6,571	11.71%	1,696,638	1,664,000	$32,638
NORTH DAKOTA	653	660	1.07%	200,000	200,000	$0
OHIO	10,798	10,907	1.01%	2,816,197	3,048,500	($232,303)
OKLAHOMA	3,025	3,224	6.58%	832,440	850,000	($17,560)
OREGON	2,633	2,820	7.10%	728,126	741,000	($12,874)
PENNSYLVANIA	11,864	12,040	1.48%	3,108,738	3,354,000	($245,262)
PUERTO RICO	3,197	3,377	5.63%	871,944	903,500	($31,556)
RHODE ISLAND	947	998	5.39%	257,684	266,500	($8,816)
SOUTH CAROLINA	3,122	3,512	12.49%	906,801	884,000	$22,801
SOUTH DAKOTA	691	715	3.47%	200,000	200,000	$0
TENNESSEE	4,591	4,940	7.60%	1,275,512	1,300,000	($24,488)
TEXAS	14,229	16,991	19.41%	4,387,091	4,017,000	$370,091
UTAH	1,461	1,707	16.84%	440,749	409,500	$31,249
VERMONT	511	567	10.96%	200,000	200,000	$0
VIRGINA	5,347	6,098	14.05%	1,574,509	1,508,000	$66,509
VIRGIN ISLANDS	96	120	25.00%	200,000	200,000	$0
WASHINGTON	4,132	4,761	15.22%	1,229,294	1,170,000	$59,294
WEST VIRGINIA	1,950	1,857	-4.77%	479,479	552,500	($73,021)
WISCONSIN	4,706	4,867	3.42%	1,256,664	1,326,000	($69,336)
WYOMING	470	475	1.06%	200,000	200,000	$0
TOTALS	229,842	251,742	9.53%	$65,479,150	$65,000,000	$479,150
CURRENT FUNDING LEVEL					$65,000,000	

TABLE 2a

Sales and Employment for Long-term, Non-preventure Clients

	Georgia	Connecticut	South Dakota	Florida	Kentucky
a) Gross sales of respondents 1986	$ 22,010,796	$ 5,671,713	$ 21,030,055	$ 17,446,946	$ 34,489,412
b) Gross sales of respondents 1987	$ 25,975,395	$ 7,812,089	$ 24,833,436	$ 22,710,397	$ 41,051,682
Number of respondents	37	22	41	78	55
c) Full-time employees of respondents 1986	395	166	302	585	380
d) Full-time employees of respondents 1987	418	188	390	667	415
e) Part-time employees of respondents 1986	122	71	100	212	181
f) Part-time employees of respondents 1987	137	73	244	236	195
Number of respondents	45	22	39	109	55
g) Average gross sales per respondent 1986	$ 594,886	$ 257,805	$ 512,928	$ 223,679	$ 627,080
h) Average gross sales per respondent 1987	$ 702,038	$ 355,094	$ 605,694	$ 291,159	$ 746,394
i) Average FT/PT employees per respondent 1986	8.8/2.7	7.5/3.2	7.7/2.6	5.4/1.9	6.9/3.3
j) Average FT/PT employees per respondent 1987	9.3/3.0	8.5/3.3	10.0/5.7	6.1/2.2	7.5/3.5
k) Number of long-term, non-preventure clients 1986	230	335	268	600*	359
l) Gross sales for all long-term, non-preventure clients 1986	$136,823,780	$ 86,364,675	$137,464,704	$134,207,400	$225,121,720
m) Gross sales for all long-term, non-preventure clients 1987	$161,468,740	$118,956,490	$162,325,992	$174,695,400	$267,955,440
n) Full-time employees of all long-term, non-preventure clients 1986	2,024.0	2,512.5	2,063.6	3,240.0	2,477.1
o) Full-time employees of all long-term, non-preventure clients 1987	2,139.0	2,847.5	2,680.0	3,660.0	2,692.5
p) Part-time employees of all long-term, non-preventure clients 1986	671	1,072	697	1,140	1,185
q) Part-time employees of all long-term, non-preventure clients 1987	690	1,106	1,528	1,320	1,257

* - estimate

TABLE 2a (continued)

Sales and Employment for Long-term, Non-preventure Clients

	Louisiana	Massachusetts	Nebraska	Tennessee	Washington
a) Gross sales of respondents 1986	$ 8,475,732	$ 49,388,693	$ 42,100,000	$ 11,430,856	$ 18,546,505
b) Gross sales of respondents 1987	$ 9,321,678	$ 63,335,001	$ 47,906,001	$ 13,144,905	$ 22,151,400
Number of respondents	13	86	55	27	41
c) Full-time employees of respondents 1986	254	829	815	391	398
d) Full-time employees of respondents 1987	345	962	862	407	410
e) Part-time employees of respondents 1986	105	437	416	70	102
f) Part-time employees of respondents 1987	136	570	430	79	115
Number of respondents	15	91	71	39	48
g) Average gross sales per respondent 1986	$ 651,979	$ 574,287	$ 765,455	$ 423,365	$ 452,354
h) Average gross sales per respondent 1987	$ 717,052	$ 736,453	$ 811,018	$ 486,848	$ 540,278
i) Average FT/PT employees per respondent 1986	16.9/7.0	9.1/4.8	11.5/5.9	10.0/1.8	8.3/2.1
j) Average FT/PT employees per respondent 1987	23.0/9.1	10.6/6.3	12.1/6.1	10.4/2.0	8.5/2.4
k) Number of long-term, non-preventure clients 1986	85	416	202	111	450
l) Gross sales for all long-term, non-preventure clients 1986	$55,418,215	$238,903,390	$154,621,910	$ 46,993,515	$207,178,130
m) Gross sales for all long-term, non-preventure clients 1987	$60,949,420	$306,364,440	$175,945,630	$ 54,040,128	$247,447,320
n) Full-time employees of all long-term, non-preventure clients 1986	1,436.5	3,785.6	2,323.0	1,110.0	3,801.4
o) Full-time employees of all long-term, non-preventure clients 1987	1,955.0	4,409.6	2,444.2	1,154.4	3,893.0
p) Part-time employees of all long-term, non-preventure clients 1986	595	1,997	1,192	200	962
q) Part-time employees of all long-term, non-preventure clients 1987	774	2,621	1,232	222	1,099

* - estimate

TABLE 2a (continued)

Sales and Employment for Long-term, Non-preventure Clients

	Arkansas	Alabama	Utah	Michigan	Iowa
a) Gross sales of respondents 1986	$ 62,354,127	$ 90,291,540	$ 15,500,000	$ 22,821,804	$ 22,204,201
b) Gross sales of respondents 1987	$ 84,294,993	$ 106,168,529	$ 19,500,000	$ 27,696,919	$ 25,977,954
Number of respondents	19	79	32	32	60
c) Full-time employees of respondents 1986	750	939	381	381	366
d) Full-time employees of respondents 1987	875	1,123	446	446	427
e) Part-time employees of respondents 1986	66	124	105	105	196
f) Part-time employees of respondents 1987	74	162	128	128	266
Number of respondents	25	81	37	37	70
g) Average gross sales per respondent 1986	$ 3,281,796	$ 1,244,197	$ 673,913	$ 713,181	$ 370,070
h) Average gross sales per respondent 1987	$ 4,436,579	$ 1,343,905	$ 847,826	$ 865,529	$ 432,966
i) Average FT/PT employees per respondent 1986	30.0/2.6	11.6/1.5	9.1/3.0	10.3/2.8	5.2/2.8
j) Average FT/PT employees per respondent 1987	35.0/3.0	13.9/2.0	10.5/4.0	12.0/3.5	6.1/3.8
k) Number of long-term, non-preventure clients 1986	141*	1,072	147	147*	300
l) Gross sales for all long-term, non-preventure clients 1986	$462,733,236	$1,333,779,184	$ 99,065,211	$104,837,607	$111,021,000
m) Gross sales for all long-term, non-preventure clients 1987	$625,557,639	$1,440,666,160	$124,630,422	$127,232,763	$129,889,800
n) Full-time employees of all long-term, non-preventure clients 1986	4,230.0	2,595.6	976.0	1,514.1	1,560.0
o) Full-time employees of all long-term, non-preventure clients 1987	4,935.0	2,739.8	960.0	1,764.0	1,830.0
p) Part-time employees of all long-term, non-preventure clients 1986	367	1,608	441	412	840
q) Part-time employees of all long-term, non-preventure clients 1987	423	2,144	588	515	1,140

* - estimate

TABLE 2a (continued)

Sales and Employment for Long-term, Non-preventure Clients

	Rhode Island	South Carolina	North Carolina	Kansas	Pennsylvania
a) Gross sales of respondents 1986	$ 7,488,927	$ 45,930,041	$ 1,363,023	$ 13,422,477	$ 275,649,552
b) Gross sales of respondents 1987	$ 8,023,985	$ 51,786,987	$ 1,840,521	$ 16,364,630	$ 318,014,538
Number of respondents	15	53	12	23	127
c) Full-time employees of respondents 1986	110	829	61	166	3,891
d) Full-time employees of respondents 1987	127	988	73	274	4,211
e) Part-time employees of respondents 1986	76	98	25	76	919
f) Part-time employees of respondents 1987	81	162	32	93	1,034
Number of respondents	15	54	15	24	127
g) Average gross sales per respondent 1986	$ 499,262	$ 866,604	$ 113,588	$ 583,586	$ 2,170,469
h) Average gross sales per respondent 1987	$ 534,932	$ 977,113	$ 153,377	$ 711,375	$ 2,504,051
i) Average FT/PT employees per respondent 1986	7.3/5.1	15.3/1.8	4.1/1.7	6.9/3.2	30.6/7.2
j) Average FT/PT employees per respondent 1987	8.5/5.4	18.3/3.0	4.9/2.1	11.4/3.9	33.2/8.1
k) Number of long-term, non-preventure clients 1986	155*	174	51	213	625*
l) Gross sales for all long-term, non-preventure clients 1986	$77,385,610	$150,789,096	$ 5,792,835	$124,303,818	$1,356,543,125
m) Gross sales for all long-term, non-preventure clients 1987	$82,914,460	$170,017,662	$ 7,822,227	$151,522,875	$1,565,031,875
n) Full-time employees of all long-term, non-preventure clients 1986	1,131.5	2,662.2	209.1	1,469.7	19,125.0
o) Full-time employees of all long-term, non-preventure clients 1987	1,317.5	3,184.2	249.9	2,478.2	20,750.0
p) Part-time employees of all long-term, non-preventure clients 1986	791	313	87	682	4,500
q) Part-time employees of all long-term, non-preventure clients 1987	837	522	107	831	5,063

* - estimate

TABLE 2a (continued)

Sales and Employment for Long-term, Non-preventure Clients

	Missouri	Houston	New Jersey	New York
a) Gross sales of respondents 1986	$ 519,794	$ 1,472,000	$ 5,576,416	$ 1,958,950
b) Gross sales of respondents 1987	$ 609,193	$ 2,131,000	$ 7,061,124	$ 2,774,897
Number of respondents	32	5	19	17
c) Full-time employees of respondents 1986	253	18	77	62
d) Full-time employees of respondents 1987	416	26	99	74
e) Part-time employees of respondents 1986	80	6	65	33
f) Part-time employees of respondents 1987	116	15	89	49
Number of respondents	32	4	17	20
g) Average gross sales per respondent 1986	$ 16,244	$ 294,400	$ 293,495	$ 115,232
h) Average gross sales per respondent 1987	$ 19,037	$ 426,200	$ 371,638	$ 163,229
i) Average FT/PT employees per respondent 1986	7.9/2.5	4.5/1.5	4.5/3.8	3.1/2.4
j) Average FT/PT employees per respondent 1987	13.0/3.6	6.5/3.7	5.8/5.2	3.7/2.4
k) Number of long-term, non-preventure clients 1986	290*	41	145	192*
l) Gross sales for all long-term, non-preventure clients 1986	$ 4,710,760	$12,070,400	$42,556,775	$22,124,544
m) Gross sales for all long-term, non-preventure clients 1987	$ 5,520,730	$17,474,200	$53,887,510	$31,339,968
n) Full-time employees of all long-term, non-preventure clients 1986	2,291.0	184.5	652.5	595.2
o) Full-time employees of all long-term, non-preventure clients 1987	3,770.0	266.5	841.0	710.4
p) Part-time employees of all long-term, non-preventure clients 1986	725	62	551	461
q) Part-time employees of all long-term, non-preventure clients 1987	1,044	152	754	461

* - estimate

TABLE 2b

Sales and Employment for Long-term, Preventure Clients

	Georgia	South Dakota	Florida	Kentucky
a) Gross sales of respondents 1986	$ 503,516	$ 40,000	$ 2,556,143	$ 7,156,680
b) Gross sales of respondents 1987	$ 2,607,496	$ 130,000	$ 4,159,566	$10,147,550
Number of respondents	18	4	30	38
c) Full-time employees of respondents 1986	17	0	69	93
d) Full-time employees of respondents 1987	46	11	87	121
e) Part-time employees of respondents 1986	20	0	46	28
f) Part-time employees of respondents 1987	37	10	74	41
Number of respondents	23	4	40	49
g) Average gross sales per respondent 1986	$ 27,973	$ 10,000	$ 85,205	$ 188,334
h) Average gross sales per respondent 1987	$ 144,861	$ 32,500	$ 138,652	$ 267,041
i) Average FT/PT employees per respondent 1986	.7/.9	0/0	1.7/1.1	1.9/.6
j) Average FT/PT employees per respondent 1987	2.0/1.6	2.7/2.5	2.2/1.8	2.5/.8
k) Percentage of respondents who went into business	47%	62%	77%	67%
l) Number of long-term, preventure clients 1986	191	154	274*	329
m) Gross sales for all long-term, preventure clients 1986 (based on K*l)	$ 2,517,570	$ 950,000	$17,978,255	$41,433,480
n) Gross sales for all long-term, preventure clients 1987 (based on k*l)	$13,037,490	$ 3,087,500	$29,255,572	$58,749,020
o) Full-time employees of all long-term, preventure clients 1986 (based on k*l)	63.0	0	358.7	418.0
p) Full-time employees of all long-term, preventure clients 1987 (based on k*l)	180.0	256.5	464.2	550.0
q) Part-time employees of all long-term, preventure clients 1986	81	0	232.1	132.0
r) Part-time employees of all long-term, preventure clients 1987	144.0	237.5	379.8	176.0

* - estimate

TABLE 2b (continued)

Sales and Employment for Long-term, Preventure Clients

	Louisiana	Massachusetts	Nebraska	Tennessee	Washington
a) Gross sales of respondents 1986	$ 42,000	$ 2,102,744	$ 746,000	$ 9,100	$ 283,500
b) Gross sales of respondents 1987	$ 322,000	$ 4,931,758	$ 607,000	$ 23,500	$ 691,000
Number of respondents	3	29	8	2	14
c) Full-time employees of respondents 1986	0	63	28	1	16
d) Full-time employees of respondents 1987	8	98	37	1	33
e) Part-time employees of respondents 1986	0	28	16	1	17
f) Part-time employees of respondents 1987	15	56	110	1	17
Number of respondents	3	35	52	1	11
g) Average gross sales per respondent 1986	$ 14,000	$ 77,879	$ 93,250	$ 4,550	$ 20,250
h) Average gross sales per respondent 1987	$ 107,333	$ 170,061	$ 75,875	$ 11,750	$ 49,357
i) Average FT/PT employees per respondent 1986	0/0	1.8/.8	.5/.3	1.0/1.0	1.4/1.5
j) Average FT/PT employees per respondent 1987	2.7/5.0	2.8/1.6	.7/2.1	1.0/1.0	3.0/1.5
k) Percentage of respondents who went into business	50%	71%	25%	8%	55%
l) Number of long-term, preventure clients 1986	56	245	119	24	295
m) Gross sales for all long-term, preventure clients 1986 (based on k*l)	$ 392,000	$13,550,946	$ 2,797,500	$ 9,100	$ 3,280,500
n) Gross sales for all long-term, preventure clients 1987 (based on k*l)	$3,005,324	$29,590,614	$ 2,276,250	$ 23,500	$ 7,995,834
o) Full-time employees of all long-term, preventure clients 1986 (based on k*l)	0	313.2	15.0	2.0	226.8
p) Full-time employees of all long-term, preventure clients 1987 (based on k*l)	75.6	487.2	21.0	2.0	486.0
q) Part-time employees of all long-term, preventure clients 1986	0	139.2	9.0	2.0	243.0
r) Part-time employees of all long-term, preventure clients 1987	140.0	278.4	63.0	2.0	243.0

TABLE 2b (continued)

Sales and Employment for Long-term, Preventure Clients

	Arkansas	Alabama	Utah	Michigan	Iowa
a) Gross sales of respondents 1986	$ 0	$ 218,757	$ 13,800	$ 61,000	$ 1,666,003
b) Gross sales of respondents 1987	$ 2,454,858	$ 664,828	$ 116,300	$ 339,000	$ 2,099,291
Number of respondents	13	10	5	5	15
c) Full-time employees of respondents 1986	0	11	2	5	49
d) Full-time employees of respondents 1987	63	20	2	8	75
e) Part-time employees of respondents 1986	0	6	1	9	61
f) Part-time employees of respondents 1987	42	10	3	15	71
Number of respondents	13	9	3	7	17
g) Average gross sales per respondent 1986	$ 0	$ 21,876	$ 2,760	$ 12,200	$ 111,067
h) Average gross sales per respondent 1987	$ 188,835	$ 66,483	$ 23,260	$ 67,800	$ 139,952
i) Average FT/PT employees per respondent 1986	0/0	1.2/.7	.7/.3	.7/1.3	2.9/3.6
j) Average FT/PT employees per respondent 1987	4.8/3.2	2.2/1.1	.7/1.0	1.1/2.1	4.4/4.2
k) Percentage of respondents who went into business	69%	62%	63%	37%	66%
l) Number of long-term, preventure clients 1986	141*	296	61	79*	178
m) Gross sales for all long-term, preventure clients 1986 (based on k*l)	$ 0	$ 4,003,308	$ 104,800	$ 353,800	$12,994,839
n) Gross sales for all long-term, preventure clients 1987 (based on k*l)	$18,316,995	$12,166,389	$ 883,880	$1,966,200	$16,374,384
o) Full-time employees of all long-term, preventure clients 1986 (based on k*l)	0	219.6	26.6	20.3	339.3
p) Full-time employees of all long-term, preventure clients 1987 (based on k*l)	465.6	402.6	26.6	31.9	514.8
q) Part-time employees of all long-term, preventure clients 1986	0	128.8	11.4	37.7	421.2
r) Part-time employees of all long-term, preventure clients 1987	310.4	202.4	38.0	60.9	491.4

TABLE 2b (continued)

Sales and Employment for Long-term, Preventure Clients

	Rhode Island	South Carolina	North Carolina	Kansas	Pennsylvania
a) Gross sales of respondents 1986	$ 18,000	$ 405,002	$ 350,000	$ 57,100	$ 3,296,633
b) Gross sales of respondents 1987	$ 938,000	$ 1,785,012	633,000	$ 73,500	$ 7,233,555
Number of respondents	3	31	4	3	42
c) Full-time employees of respondents 1986	16	18	13	9	110
d) Full-time employees of respondents 1987	16	72	23	19	196
e) Part-time employees of respondents 1986	0	20	5	5	46
f) Part-time employees of respondents 1987	1	74	9	6	92
Number of respondents	3	27	6	3	47
g) Average gross sales per respondent 1986	$ 6,000	$ 13,065	$ 87,500	$ 19,033	$ 78,491
h) Average gross sales per respondent 1987	$ 312,667	$ 57,581	$ 158,250	$ 24,518	$ 172,227
i) Average FT/PT employees per respondent 1986	5.3/0	.7/.7	2.2/.8	3.0/1.7	2.3/1.0
j) Average FT/PT employees per respondent 1987	5.3/.3	2.7/2.7	3.8/1.5	6.3/2.0	4.2/2.0
k) Percentage of respondents who went into business	100%	55%	38%	42%	63%
l) Number of long-term, preventure clients 1986	50	205	41	87	326*
m) Gross sales for all long-term, preventure clients 1986 (based on k*l)	$ 300,000	$ 1,476,345	1,400,000	$685,188	$16,090,655
n) Gross sales for all long-term, preventure clients 1987 (based on k*l)	$15,633,350	$ 6,506,653	2,532,000	$882,648	$35,306,535
o) Full-time employees of all long-term, preventure clients 1986 (based on k*l)	265.0	79.1	35.2	108.0	471.5
p) Full-time employees of all long-term, preventure clients 1987 (based on k*l)	265.0	305.1	60.8	226.8	861.0
q) Part-time employees of all long-term, preventure clients 1986	0	79.1	12.8	62.9	205.0
r) Part-time employees of all long-term, preventure clients 1987	15.0	305.1	24.0	74.0	410.0

TABLE 2b (continued)

Sales and Employment for Long-term, Preventure Clients

	Missouri	Houston	New Jersey	New York
a) Gross sales of respondents 1986	$ 1,000	$ 131,000	$ 196,000	$ 938,000
b) Gross sales of respondents 1987	$ 1,500	$ 295,000	$ 330,000	$ 2,354,586
Number of respondents	2	2	4	9
c) Full-time employees of respondents 1986	0	5	6	12
d) Full-time employees of respondents 1987	0	11	7	32
e) Part-time employees of respondents 1986	0	0	3	6
f) Part-time employees of respondents 1987	0	5	3	15
Number of respondents	2	2	6	9
g) Average gross sales per respondent 1986	$ 500	$ 65,500	$ 49,000	$ 104,222
h) Average gross sales per respondent 1987	$ 750	$ 147,500	$ 82,725	$ 261,620
i) Average FT/PT employees per respondent 1986	0/0	2.5/0	1/.5	1.3/.7
j) Average FT/PT employees per respondent 1987	0/0	5.5/2.5	1.2/.5	3.5/1.7
k) Percentage of respondents who went into business	33%	75%	78%	73%
l) Number of long-term, preventure clients 1986	58*	23	59	97*
m) Gross sales for all long-term, preventure clients 1986 (based on k*l)	$ 9,500	$1,113,500	$ 1,254,000	$ 7,399,762
n) Gross sales for all long-term, preventure clients 1987 (based on k*l)	$14,250	$2,507,500	$ 3,805,350	$18,575,020
o) Full-time employees of all long-term, preventure clients 1986 (based on k*l)	0	42.5	46.0	92.3
p) Full-time employees of all long-term, preventure clients 1987 (based on k*l)	0	93.5	55.2	248.5
q) Part-time employees of all long-term, preventure clients 1986	0	0	23.0	49.7
r) Part-time employees of all long-term, preventure clients 1987	0	42.5	23.0	120.7

QUESTION SUBMITTED TO MR. ROBERT BERNIER
FROM SENATOR SAM NUNN
APRIL 18, 1990 HEARING RECORD

1. There has been some concern that the Small Business Development Center (SBDC) Programs hosted and administered by state agencies may not be as cost efficient and effective from the perspective of the small business client as those administered by universities. Should the Small Business Act be amended to only permit universities to host SBDC's in the future? My question assumes that state executive branch agencies now hosting lead SBDC centers should not be required to relinquish their current lead status.

The Association of Small Business Development Centers has not taken a position on the eligibility of SBDC sponsorship. My own position, based on 11 years of SBDC experience, is that colleges and universities generally provide better leadership than state departments of economic development or chambers of commerce. I believe this is true for two reasons.

First, the Small Business Development Center is essentially an educational program. Universities, particularly those with a tradition of extension or public service programs, have an understanding of the needs and the value of an outreach program to small business. They provide SBDCs with a supportive environment that allows them to focus on their primary mission of helping the entrepreneurship sector.

Second, college and university SBDCs, without exception, are program managed SBDCs. The state directors are deeply involved in the management of the program and the delivery of services. State economic development department SBDCs tend to be grant managed SBDCs. The state directors in these programs are generally concerned with reviewing proposals from local chambers, colleges or other entities and making grant awards. There is no state system in a management sense and no direct involvement in the delivery of services. There is at least one state economic development department SBDC that is program managed, but, the tendency for economic development departments to grant manage their program continues to be a significant problem.

A provision that permits current state agency run programs to continue and limits future SBDCs to universities is one that should benefit the program. However, I would urge the SBA to encourage program managed programs that recognize the educational mission of SBDCs in all states, including those that would continue to be run by state economic development agencies.

Senator NUNN. Thank you Mr. Bernier.

Dr. Knapp.

STATEMENT OF DR. CHARLES B. KNAPP, PRESIDENT, THE UNIVERSITY OF GEORGIA, ATHENS, GA

Dr. KNAPP. Thank you Mr. Chairman, Senator Grassley. I appreciate the opportunity to be here today to testify for a program that you, Senator Nunn, were instrumental in initiating. I also like to thank you for your continued support of this program which has done so much for small business in the State of Georgia, and in this Nation.

As Georgia's land-grant university, The University of Georgia, has a mandate to sponsor and implement programs as a public service. The university has one of the premier public service programs among universities in the country. These activities represent a wide spectrum of academic disciplines and include, among many others, the Cooperative Extension Service; the Carl Vinson Institute for Government, providing training and research programs for local and State governments; and the Small Business Development Center.

The SBA decided in 1976 to fund, in a pilot effort, several University Business Development Centers to provide assistance to small businesses. The University of Georgia, of course, was selected as one of those pilot sites.

The Pilot Programs began, the Senate worked to provide direct funding for Small Business Development Centers. The Small Business Development Act was first introduced in 1977, and as most of those in this room know, one of the principal architects was the then first-term Georgia Senator, Sam Nunn.

Small Business Develop Center Program at the University of Georgia grew and prospered with strong support from the University's administration and Georgia's small business community. It continues to be a leader among SBDCs in the country and plays an important role in the State's business and economic health.

The Georgia SBDC consists of a statewide network of 15 full-time offices. Last year these offices, working with other colleges and universities in the State, vocational-technical schools and Chambers of Commerce, among other organizations, provided service in 151 of Georgia's 159 counties.

During calendar year 1989, our SBDC counselors provided assistance to 6,759 individuals and businessowners, as well as Business Training Programs to 12,905 attendees. Additionally, there were another 6,000 people who called for information.

We have several programs that address special needs of the small business community. A staff of export professionals works with companies that manufacture and distribute products which have overseas sales potential. The focus of this program is to develop first-time exporters and then to keep them exporting. I will discuss in greater detail one of these clients in a moment.

When the SBDC was beginning, the then-Governor of Georgia, George Busbee, was considering funding a State Minority Business Program. The Governor saw it as a natural outgrowth of our new Small Business Development Center. Thus, the Office of Minority

Business Development was established as a division within our SBDC, funded entirely by the State. While this office is not the only source of minority business assistance through the SBDC, it serves as a focal point for our efforts.

The research division has long been a leader among SBDCs in generating scholarly research on entrepreneurship and small businesses as well as providing a variety of community-based business and economic development studies. Studies include income tax depreciation methods, the role of small business in revitalizing urban centers, physician recruitment to rural Georgia, population change and its effect on the retail sector, market studies and plant closings.

The SBDC's rural outreach effort will be expanded greatly this year. Through a special rural economic development grant from the U.S. Department of Agriculture, we will enhance small business development and retention in the rural areas of our State.

We are also very proud to house the SBDC Connection, a national clearinghouse for small business information for SBDC centers, funded by the Small Business Administration.

Our most recent impact study of the Georgia SBDC Program is extremely encouraging. 27 percent greater sales growth increase for SBDC clients in 1986 is more than four times the 6 percent growth rate for the average Georgia small business.

Employment for SBDC clients increased an average of 15.2 percent, while statewide business employment climbed only 1.5 percent.

The bottom line is that SBDC client firms generated approximately $2.4 million in marginal tax revenue at State and Federal levels from basic counseling services alone.

Our role and impact in exporting is demonstrated by the client I spoke of earlier, Superior Sealants, recently named the 1989 SBA Exporter of the Year from Georgia.

This Atlanta-based manufacturer of caulks and sealants produces products under its own brand name and under private labels for some of the country's most prestigious coatings and hardware companies. Superior also makes specialty paints.

In April 1987, SBDC personnel contacted the company as part of its chemical industry survey. The company had a solid reputation based on a proven track record of delivering quality products, and the SBDC staff felt confident that the company possessed strong export potential. Superior's president, Larry Hecht, while not overly optimistic about exporting prospects, was willing to test the export market. The international trade team provided Superior with market research and trade leads.

Accordingly, Superior Sealants participated in the State of Georgia-sponsored catalogue shows in England and Korea. In 1988, their export sales to four countries amounted to $78,000; during the first 8 months of 1989, sales to 10 countries around the world totaled $201,000. Increased sales and the anticipation of high demand for the company's products in the Middle East led to a joint venture manufacturing facility in Jordan. Meanwhile, the company has sold its manufacturing technology to a large Japanese corporation.

In a letter which is included with my written statement, Hecht described the company's success since his initial contact with SBDC.

> We have been fortunate enough to have developed container load customers in 10 countries, including Europe, Far East, Middle East and Canada. What success we have had to date, is due in large measure to your guidance and help. You have been invaluable in leading us to contacts, and telling us how to approach international trade.

Special programs and activities in addition to SBDC's basic counseling and continuing education are, of course, ongoing.

Next month, the Georgia SBDC is sponsoring a statewide Women in Business Conference in Savannah for new and expanding and established female entrepreneurs. Plans are already underway for a 2-day National Innovation Workshop for the Southeastern U.S. region sponsored by the Georgia SBDC. Funded by the Department of Energy, the workshop will help entrepreneurs and inventors bring their ideas to the marketplace.

Presently, the SBDC, with SBA funding, is working to provide intensive management training and technical assistance to 8(a) firms. To date, 15 of these companies have volunteered to participate in this Pilot Program. Each is being evaluated to determine what specific assistance will be rendered in order for them to become more viable in the marketplace.

Just this past week, Senator Nunn, we have held meetings with staff representatives from the Small Business and Armed Services Committees of the Senate to discuss your proposed Mentor/Protege Program. We look forward to participating in this innovative project designed to enhance the capabilities of minority firms to subcontract with major DOD suppliers.

I appreciate having the opportunity to speak with you today about the significance of the SBDC Program and the contributions we are making to the citizens of Georgia. Thank you for your support of our efforts.

[The prepared statement of Dr. Knapp follows:]

Statement of

Charles B. Knapp

President

The University of Georgia

Before

The Committee On Small Business

United States Senate Hearing On

Reauthorization Of The Small Business Development Center

April 18, 1990

Mr. Chairman, members of the committee . . . I appreciate the opportunity to be here today to testify for a program that you, Senator Nunn, were instrumental in initiating. I would also like to thank you for your continued support of the program which has done so much for small business in the state of Georgia and this nation.

As Georgia's land-grant university, The University of Georgia has a mandate to sponsor and implement programs as a public service.

The University has one of the premier public service programs among universities in the country. These activities represent a wide spectrum of academic disciplines and include the Cooperative Extension Service, providing technical assistance and problem solving in both urban and rural communities; the Carl Vinson Institute for Government, providing training and research programs for state and local governments; and the Small Business Development Center.

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The Small Business Development Center program at The University of Georgia grew and prospered with strong support from the University's administration and Georgia's small business community. It continues to be a leader among SBDCs in the country and plays an important role in the state's business and economic development.

The Georgia SBDC consists of a statewide network of 15 full-time offices. Last year these offices, working with other colleges and universities, vocational-technical schools and chambers of commerce, among other organizations, provided service to 151 of Georgia's 159 counties. During calendar year 1989, SBDC counselors provided assistance to 6,759 individuals and business owners, as well as business training programs to 12,905 attendees. Additionally, another 6,000 people called for information.

We have several programs that address special needs of the small business community. A staff of export professionals works with companies that manufacture or distribute products which have overseas sales potential. The focus of this program is to develop first-time exporters and then to keep them exporting. The International Trade Division provides one-on-one consulting, increases international business awareness and promotes interest in exporting throughout the state. I will discuss in greater detail one of these clients in a moment.

When the SBDC program was beginning, then Governor of Georgia, George Busbee, was considering funding a state minority business program. The governor saw it as a natural outgrowth of the new Small Business Development Center. Thus, the Office of Minority Business Development was established as a division of the SBDC, funded entirely by the state. While this office is not the only source of minority business assistance through the SBDC, it serves as a focal point for our efforts. OMBD sponsors the statewide Black Youth and Entrepreneurship Program, and an ongoing black college business student intern program. OMBD also works closely with the Georgia Association of Minority Entrepreneurs.

The research division has long been a leader among SBDCs in generating scholarly research on entrepreneurship and small businesses as well as providing a variety of community-based business and economic development studies. Studies include income tax depreciation methods, the role of small business in revitalizing urban centers, physician recruitment to rural Georgia, population change and its effects on the retail sector, market studies, and plant closings.

The SBDC's rural outreach effort will be expanded greatly this year. Through a special rural economic development grant from the U.S. Department of Agriculture, (USDA), we will enhance small business development and retention.

Rural Economic Development, funded by grants from the W.K. Kellogg Foundation and USDA is assisting 29 rural communities by expanding small businesses , promoting community leadership training and initiating an attack on illiteracy.

Since its establishment in 1989, the Connection has served approximately 1900 users from all the SBDCs nationwide. Services offered include a bimonthly newsletter with a circulation of over 2,000, a reference and referral service, literature searches, document delivery, and more extensive secondary research.

The SBDC Connection serves as the national repository of SBDC, SBA, and other information related to small business. Special projects that the Connection is involved with include: a rural small business database, a database of information about all the SBDCs, a bibliographic database of publications related to small business, and an electronic mail and bulletin board system to connect over 600 SBDC locations.

The Innovation/Incubator assists new start-up businesses by providing centralized services that reduce overhead costs. The incubator offers 7700 square feet of office and laboratory space adjacent to the state office and gives tenants access to SBDC resources and University facilities and expertise. Among the types of firms which have occupied the incubator facility are animal husbandry, electronic signs, biotechnology, and desktop publishing. Presently two tenants are participants in three Small Business Institute Research grants.

Our most recent economic impact study of the Georgia SBDC program is encouraging. The 27 percent rate of sales increase for SBDC clients in 1986 is more than four times the six percent rate of growth for the average Georgia small business.

Employment for SBDC clients increased an average of 15.2 percent while statewide business employment climbed only 1.5 percent.

The bottom line . . . SBDC client firms generated approximately $2.4 million in marginal tax revenues at state and federal levels from basic counseling services alone.

We are also very proud to house the SBDC Connection, the national clearinghouse of small business information for SBDC s, funded by the SBA.

To illustrate further the effectiveness of Georgia's program, let me share several of our client profiles.

In rural Ashburn, Georgia, a distributor of top quality hardware used in the maintenance and repair of heavy agricultural equipment has become more efficient and has expanded its services with the assistance of the SBDC. The company, Hardware, Bolts and Tools, Inc. (HBT), serves customers in south Georgia, north Florida and southeast Alabama.

Four years ago, owners Chris Hammond and Jim Curington requested a meeting with an SBDC counselor to determine if the company was realizing its full potential. The firm was six years old at the time with annual sales of $365,000.

Initially, Hammond indicated that their primary concerns related to the firm's ability to project a favorable company image, develop effective advertising methods and deal with the challenges of personnel administration. The business had seven employees, yet the principals remained almost exclusively involved in performing routine tasks.

In a month-long time/work study of HBT, an SBDC consultant examined current business practices and procedures and staff functions. The results: updated job descriptions, a training guide for new personnel and a more efficient assignment of duties.

The success of this program equipped HBT to plan and expand to a second location in fast-growing Tifton, Georgia. The following year's sales were up 33% over 1986 and cash flow was greatly improved.

The relationship between HBT and the SBDC has continued. Since the initial assistance, the SBDC has established financial benchmarks to guide HBT through financial decisions and provided financial analyses which were used as an operating tool and aid in negotiating short-term loans at local banks.

New product lines and sales territories are now being considered and the firm is anticipating a 20% increase in revenue for 1990.

Our role and impact in exporting is demonstrated by another client, Superior Sealants, recently named the 1989 SBA Exporter of the Year from Georgia.

This Atlanta-based manufacturer of caulks, sealants, and adhesives produces products under its own brand name and under the private labels of some of the country's most prestigious coatings and hardware companies. Superior also makes specialty paints.

In April, 1987, SBDC personnel contacted the company as part of its chemical industry survey. The company had a solid reputation based on a proven track record of delivering quality products and the SBDC staff felt confident that the company possessed a strong export potential. Superior president Larry Hecht, while not overly optimistic about exporting prospects, was willing to test the export market. The international trade team provided Superior with market research and trade leads.

Accordingly, Superior Sealants participated in the state of Georgia-sponsored catalogue shows in England and Korea. In 1988, their export sales to four countries amounted to $78,000; during the first eight months of 1989, sales to ten countries around the world totaled $201,000. Increased sales and the anticipation of high demand for the company's products in the Middle East led to a joint venture manufacturing facility in Jordan. Meanwhile, the company has also sold its manufacturing technology to a large Japanese corporation.

In a letter which is included with my written statement, Hecht described the company's success since his initial contact with the SBDC. ". . . we have been fortunate enough to have developed container load customers in ten countries, including Europe, the Far East, Middle East and Canada. What success we have had to date, is due in large measure to your guidance and help. You have been invaluable in leading us to contacts, and telling us how to approach international trade."

An example of the SBDC helping clients actually start up is evident in the case of the Clark Limousine Service in Atlanta.

This is an instance in which an Army retiree and his wife turned to the SBDC to learn the basics of business. Five years ago Albert and Shirley Clark held down their regular jobs while they attended numerous SBDC workshops and were counseled about such essentials as a business plan, accounting and marketing.

Clark Limousine Service began in 1986 with one Cadillac limousine, a repossessed vehicle purchased from a bank. Today the service has a fleet of five cars which is expected to double. The Clarks anticipate substantially increasing last year's sales of $75,000.Clark credits the SBDC with making sure they accomplished the planning they needed before moving on. In a recent *Atlanta Journal/Constitution* article Clark noted that had they tried to start a business without SBDC assistance, planning would have been costly and they may not have their limousine business today.

Special programs and activities in addition to SBDC's basic business counseling and continuing education are ongoing.

Next month, the Georgia SBDC is sponsoring a statewide Women In Business Conference in Savannah for the new, expanding and established female entrepreneur.

Plans are already underway for a two-day National Innovation Workshop for the southeast U.S. region sponsored by the Georgia SBDC. Funded by the Department of Energy, the workshop will help entrepreneurs and inventors bring their ideas to the marketplace.

Presently, the SBDC, with SBA funding, is working to provide intensive management training and technical assistance to 8(a) firms. To date, 15 of these companies have volunteered to participate in the pilot program. Each is being evaluated to determine what specific assistance will be rendered in order for them to become viable in the open marketplace.

Just this past week, Senator Nunn, we have held meetings with staff representatives from the Small Business and the Armed Services Committees of the Senate to discuss your proposed Mentor/Protégé Program. We look forward to participating in this innovative project designed to enhance the capabilities of minority firms to subcontract with major Department of Defense suppliers.

I appreciate having the opportunity to speak with you about the significance of the SBDC program and the contributions we're making to the citizens of Georgia. Again, thank you for your support of our efforts.

GEORGIA
SMALL
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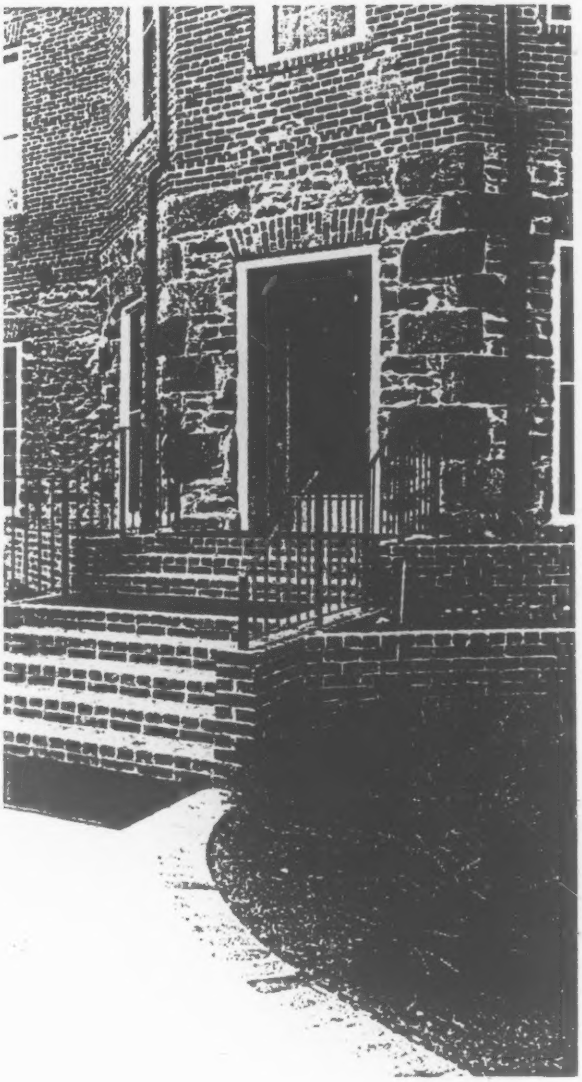
CENTER



1988 – 1989
ANNUAL REPORT
EXECUTIVE SUMMARY

Annual Report • Executive Summary

July 1, 1988 – June 30, 1989

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Introduction

Georgia
Small
Business
Development
Center

The SBDC concept is a simple one: assist small business owners and potential entrepreneurs through management counseling and training.

In Georgia, where the program has long been one of the leading models in the country, the SBDC has provided individualized counseling to more than 32,000 small business people since 1977. More than 100,000 small business people have received management training through the nearly 5,000 seminars, workshops and courses conducted by the SBDC.

Impact studies have consistently shown that, after counseling, SBDC clients in Georgia increase their sales in ratios that range from two to more than six times the rate for non-SBDC clients. The return on tax dollars spent to dollars generated in tax revenues has averaged as high as 11 to 1. Furthermore, the latest impact study shows, that in 1986, the businesses of SBDC clients had generated approximately $1.2 million in marginal tax revenues.

Messages from

. . . the President

The delivery of practical information and services is one of the important missions of The University of Georgia. As an essential part of this outreach, the Small Business Development Center assists business persons in both urban and rural communities. By providing business counseling and research information to established and prospective entrepreneurs, this organization plays an active role in maintaining and encouraging a positive business climate, so vital to our state's economic health.

I am privileged to witness the continued progress of Georgia's Small Business Development Center. This organization, recognized in past years as a "Certified Small Business Development Center," continues in its leadership role by adjusting to the growing and changing business environment of our state.

Charles B. Knapp, Ph.D.
President, UGA

. . . the Vice President for Services

I have had the opportunity over the years to observe the Small Business Development Center program, which is committed to and grounded in our land-grant concept. Its role in offering assistance, counseling and research to small businesses is essential to our state's economic well-being.

The Center continues to implement a quality program extending services throughout the state.

Over the past year, a new office was opened in Decatur increasing the SBDC presence in urban areas. One-on-one consulting was offered in four additional rural communities with the assistance of the Kellogg Foundation.

Overall, the SBDC counseled 7,193 business persons and prospective entrepreneurs last year. More than 14,700 Georgians took advantage of the 710 continuing education courses offered, which remain an integral part of the Center's services.

The phenomenal growth and ability to change and adapt to our small business community's needs merit congratulations for another year of work well done.

S. Eugene Younts, Ph.D.
V.P. for Services, UGA

. . . the State Director

My first year with the Georgia SBDC program has been rewarding. I am excited about carrying on the fine traditions set forth by Bill Flewellen and Frank Hoy and look forward to initiating new ideas in the future.

The potential economic impact to the state is immeasurable as we explore the opportunities to assist larger small businesses and to implement an effective women's agenda and procurement program.

Over the past fiscal year we're proud to have experienced continued growth in several areas:

- Upgrading the delivery of basic services, counseling, and training to our rural communities.
- Providing regular "circuit rider" counseling sessions at outlying locations.
- Opening a new branch office in Decatur, Georgia.
- Assisting the Executive Dialogue for Women in Business, headed by one of our expert business consultants.

I welcome our continued progress as we meet the challenges of our small business constituency.

J.F. McGovern, Ph.D.
State Director, SBDC

. . . the Small Business Administration

An essential part of our American heritage is the free enterprise system, supported largely by the small business community. We at the Small Business Administration (SBA) are fortunate to be able to work with the Georgia SBDC, nationally known as an effective small business proponent. Georgians are fortunate to have access to the various SBDC resources.

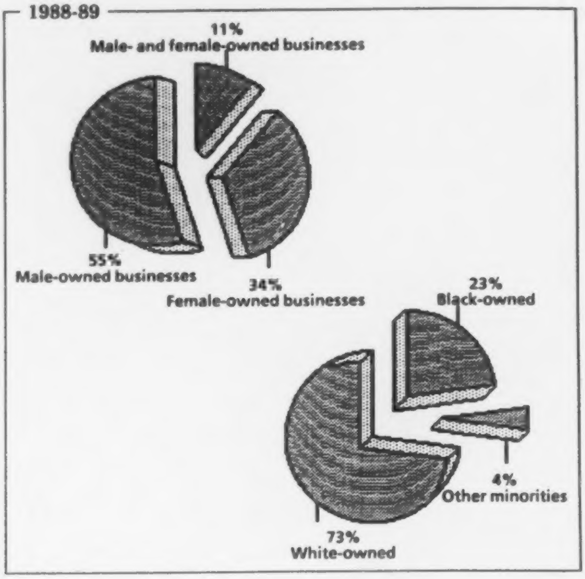
Last year, the Georgia SBDC implemented the SBDC Connection, a national depository for small business data, a useful tool for SBDCs across the country. We are also proud to recognize an SBDC International Trade Development client, B.H. Payne, as SBA Exporter of the Year for Georgia.

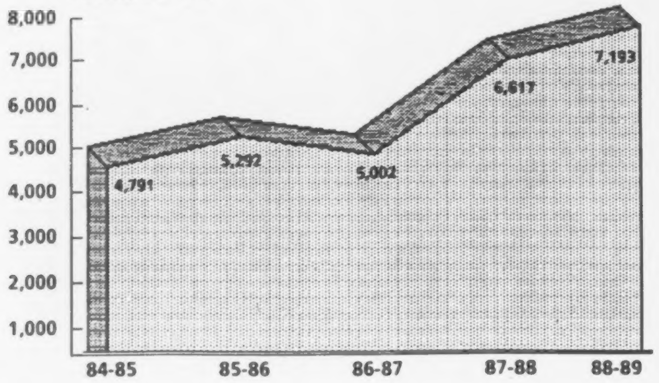
The SBDC experienced several personnel changes this year; however, the quality of service has been maintained. We believe new people bring new ideas and the SBDC will continue to be a leader in its field. We appreciate this opportunity to thank the SBDC for assistance to the small business community and the support given to the SBA.

Wilfred Stone
District Director, SBA

Program Achievements and Impact

Demographics of the businesses assisted by the Georgia SBDC last year.




Clients Served

Continuing Education

14,787 Georgians attended 710 small business education seminars during the fiscal year.

1986-1987 SBDC Program Impact Study

Sales

The 25.2 percent rate of sales increase for SBDC clients was more than four times the 6 percent rate of growth for the average business in Georgia.

Employment

Employment for SBDC clients increased an average of 11.1 percent while business employment statewide increased only 1.5 percent.

Bottom Line

At state and federal levels, SBDC client firms generated approximately $1.7 million in marginal tax revenues.

SBDC Clients Succeed

Medical Referral Service Fills Need

Medical professionals Walker and Weinheimer (seated) field more than 300 referrals monthly.

"Nursing recruitment is a challenge that must be met," says the advertising flyer of NurseNet, Inc.

The innovative nurse-referral firm is helping hospitals, nursing homes, and other health care facilities to meet the challenge. NurseNet, now nationwide in scope, uses computer databases to provide timely recruitment information.

Nurse managers Alfreda Walker and Joyce Weinheimer began the Atlanta-based firm in May 1986. As experienced administrators, they saw first-hand the scramble for registered nurses. "We felt that hospitals needed a cost-effective means to recruit nurses," Weinheimer said.

NurseNet advertises its relocation service in national nursing magazines. Nurses call the 800 number or a local number to receive information about nursing vacancies. Hospitals and nursing homes, in turn, receive referral information on nurses seeking to relocate in their areas. A subscription fee is charged to the health care facilities; the service is free to nurses.

Walker and Weinheimer have attended SBDC seminars on getting an SBA loan and effective selling techniques. They occasionally call Lloyd Atkins of the Atlanta SBDC for advice in such areas as cash flow analysis and obtaining a line of credit. "We really appreciate the help we've received from the SBDC," Walker said. As another resource, the senior business students at Georgia State University conducted a marketing analysis in the spring of 1989. Recommendations included retaining NurseNet's current client base and educating hospitals about its service.

NurseNet now has 163 health care facilities as clients and averages 330 referrals from nurses each month. Future growth may well include providing referrals for allied health care professionals–pharmacists, physical therapists, laboratory technologists, and others.

□

Safety Slippers Grip the Market

Skilled technician stitches finishing touches on JACS before shipping.

For two Georgians, a stumble on the job resulted in a new safety product for the building maintenance field.

The product is JACS, acronym for Janitor and Custodian Safety, the "brain child" of Michael and Mary Crawford of Lula. Michael sells and demonstrates janitorial products. After nearly falling at work, he was convinced that there should be something on the market to protect people when they were stripping a floor.

No such product existed. Intrigued, Mary experimented with materials and contacted manufacturers of abrasives. After three months she had designed an abrasive pad that fits on the sole of a shoe and is held in place with elastic straps.

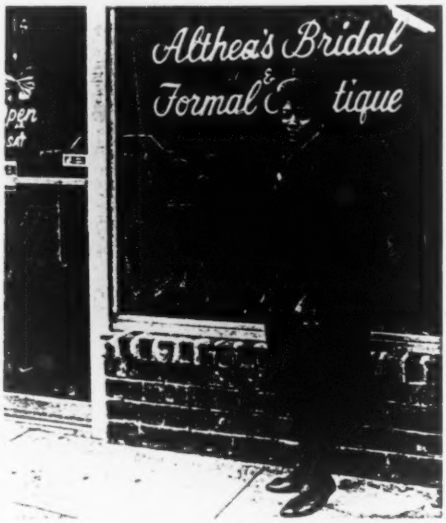
In January 1989, the couple attended an SBDC seminar in Gainesville and met consultants Bill Benham and J. C. Smith. The consultants helped them with their business plan and offered suggestions concerning research, manufacturing, shipping, and marketing. "They were extremely supportive and reviewed all of our materials and suggested avenues we could take," Mary said.

JACS is sold in Georgia and, through distributors, in North Carolina and Florida; the Florida agent contacted the firm to distribute the product in his state. The Crawfords followed Benham's advice to charge for the distributorship. "Had it not been for Bill Benham's help," Mary said, "I might have given away the whole state of Florida!"

Manufacturing is still contracted out. Eventually, Mary said, the couple will make the product themselves.

Uppermost in her mind is safety. "JACS helps people to avoid injuries," she said. "I personally feel we're providing a service to society." ☐

Here Comes the Bride



Business is thriving in Savannah as owner Postell enjoys coordinating that "special day."

SBDC consultant Gretchen Washington describes the owner of this shop as "possessing the energy and innovativeness to carry out her dreams."

The description aptly characterizes Althea Postell, who began choreographing and producing fashion shows, dance shows, and church pageants while still in her teens. Friends asked the Savannah native to coordinate their weddings, and her success on these occasions evolved naturally into her present business.

In July 1988, Postell came to the SBDC with an idea to start a one-stop bridal shop in which all preparations for a bride's big day could be made in one central location. She wanted to provide a comfortable atmosphere for her customers, a network of services needed by brides, and a rental service for the necessary wedding equipment.

Washington helped her client to calculate her initial investment, operating expenses, cost of supplies and equipment, and advertising budget. "Gretchen helped me to get organized with sales and inventory," Postell said. "She put me in contact with people concerning the services I would need to open up my business." On November 7, 1988, Althea's Bridal and Formal Shop officially opened.

In the spring of 1989, business students at Georgia Southern did a three-week marketing survey. They surveyed potential brides to determine the type of wedding they wanted and the amount of money they would spend. The survey finding was no surprise: most brides prefer a large, formal wedding. Postell does mostly traditional weddings, sometimes two in a single day.

Postell said that she had coordinated approximately 75 weddings as of September 1989. She is investigating expanding her service to include tuxedo rentals. ☐

The Key to Mercedes Maintenance

Lauck mechanics receive extensive training in human resources as well as in auto repair.

The Mercedes-Benz repair business of Marie and Wilfried Lauck ranks among the best in the Southeast. Located in Roswell, Ga., the firm has a customer base exceeding 1,700 customers and yearly sales of $1.1 million. In 1988, Willie Lauck was recognized by the Small Business Administration as the Small Business Person of the Year in North Georgia.

A naturalized U.S. citizen who moved to Atlanta in 1966, Lauck credits the SBDC with providing much of the expertise he has used in changing his "ma and pa operation" into a highly profitable business. He traces his introduction to management practices to an SBDC seminar in 1980.

"I took this particular course called 'Endangered Species: Small Business' and realized what was important in running a small business," he said. "They had answers to questions that I didn't know how to ask." At the time, his business was surviving through sheer sweat power.

"The first night of that seminar," he said, "I buttonholed the professor [Lee Quarterman] after class and asked him questions until he reminded me that he had to catch his subway train. I said that I'd drive him from here to Alaska if he continued to answer my questions."

Since that first evening, Lauck has continued to ask questions and find answers. He and his key employees have attended many SBDC seminars. He has instituted a customer database and has computerized other functions–bookkeeping, inventory control, and payroll. His extensive training program for mechanics highlights "people skills" as well as repair skills.

Lauck wants to expand his firm by making former employees partners rather than competitors. "When an employee's ready to leave," he said, "I will help him financially and with a business plan. I'll become a partner." □

SBDC Resources

> *"Research has traditionally been one of the basic principles of higher education, especially for land-grant universities . . . devoted to . . . disseminating knowledge beyond traditional campus borders."*
>
> *–SBDC History*

Center for Business and Economic Studies

The Center for Business and Economic Studies (CBES) develops and collects data impacting small business development. CBES conducts market analyses and feasibility studies, surveys customer attitudes, and forecasts business plans.

This year, CBES was involved in numerous research projects including the impact of idle labor in Georgia; obstacles minorities face in obtaining surety bonding; Lake Oconee's population growth and its impact on Greene County; and market studies for Albany, Dalton, and Carrollton.

CBES was also instrumental in obtaining the contract to implement the SBDC Connection, a national information clearinghouse for small businesses.

Center for Community Education

The Center for Community Education has become an aggressive advocate for innovative school-based entrepreneurship programs. It has established models in Jefferson and Hartwell. Additionally, the staff serve as consultants to thirty-two school systems in Georgia with active community education programs, the Governor's Task Force on Literacy, and the Georgia Association for Community Education.

Working with regional and district SBDC directors, the school-based program has been introduced to the four communities identified for special focus under the Kellogg grant.

The Center also worked with the Department of Community Affairs to develop community education statewide with a focus on the role of and small business development. Several school districts received technical assistance to establish small business training programs.

The SBDC Connection

Last September, the SBA awarded the Georgia SBDC a contract to establish a national clearinghouse to disseminate and exchange data pertinent to small business among SBDCs, the SBA and other entities.

The national depository provides services which include preparing customized bibliographies, locating and delivering hard-to-obtain publications, supplying demographics and marketing data, and conducting in-depth research on special topics.

Obtaining a subscription to *Dialog* in January enabled the Connection to link SBDCs throughout the country to hundreds of commercial data bases.

A quarterly newsletter initiated in March informs users of new services available, references and referrals, literature searches and document delivery.

National service began April 1 with the Connection handling 51 requests during its first month of service. Almost 400 requests were filled by late June.

International Trade Development Center

> *"No nation was ever ruined by trade, many could be by the lack of it."*
>
> *–Benjamin Franklin*

Since 1978, the International Trade Development Center (ITDC) has promoted and developed international business among small and medium-sized Georgia companies. Last year the ITDC continued to expand its services to firms who seek overseas markets. It emphasized long-term, on-site counseling, assisting 101 individual companies.

Export sales resulting from direct ITDC assistance totaled over $600,000, mostly from first-time exporters.

The U.S. SBA named B.H. Payne, an ITDC client, its Exporter of the Year for Georgia. ITDC has counseled the circular saw blades manufacturer for nearly two and one-half years.

Seven business school students majoring in international trade interned with ITDC last year, gaining invaluable experience in marketing research.

ITDC also sponsored continuing education programs and seminars in conjunction with several organizations and governmental entities.

Last year, the ITDC worked with the U.S. SBA, the U.S. Department of Commerce, the Georgia Department of Industry and Trade, and the Korea Trade Center Miami, among others.

The Office of Minority Business Development

The Office of Minority Business Development (OMBD) is a business extension service which facilitates the delivery of counseling, training and research to minority businesses in Georgia.

Last year, utilizing the SBDC resources, OMBD assisted a manufacturer in the electronics assembly field. Various business opportunities, especially in state and private sector procurement were identified. It also focused efforts on pursuing financial resources.

The Office hosted a network exchange fair sponsored by the Athens Area Chamber of Commerce and Northeast Georgia Business League for minority-owned firms in a five-county area. Because of the fair's success, OMBD anticipates expanding similar activities to other small communities statewide.

Rural Economic Development

The Rural Economic Development program, funded by the Kellogg Foundation, is administered in cooperation with several service units with The University of Georgia. This SBDC program identifies and implements new approaches to economic development in the targeted rural communities of Blakely, Thomson, Ocilla and Hawkinsville.

During its first year, the program focused on expanding one-on-one counseling, high-school based businesses and leadership development in the four areas.

The program also made available to these towns the SBDC retail model. It developed a relationship with local banks which has proved beneficial for all parties concerned.

Tribute

The Father of the SBDC

More than a decade ago, educator William C. Flewellen, Jr. envisioned an innovative kind of assistance for small businesses. The program, similar in focus and delivery to the land-grant college program for agriculture, would unite the resources of higher education, government, and the private sector in the service of small business. Now, twelve years later, his leadership has produced a state network for entrepreneurs that is a nationwide model. The Georgia Small Business Development Center network consists of a state office, five regional offices, five district offices, five subcenters, and sixty satellites. His enviable reputation–as a consultant, an appointee to federal boards and committees, an officer in many professional and learned societies–has enhanced the national standing of the Georgia SBDC.

Retired in June 1989 after 21 years of service to The University of Georgia, Flewellen reflected upon his experiences and upon the growth of the SBDC at the University. He said that he has seen the SBDC grow "from nothing to a $4 million operation."

In the beginning, the SBDC was housed in the University's College of Business Administration, with Flewellen at the helm as dean of the College. After five years of growth and evolution, a change seemed imminent. Flewellen told his colleagues that the unit would be able to increase its "range of activities" and become more independent if it were a separate entity. As a result, then University President Fred Davison formed in 1982 the Institute for Business–an umbrella organization for the SBDC and other business assistance units–and appointed Flewellen as its first director.

W.C. Flewellen, Jr., Ph.D.

With the passage of time, skeptics have become believers in his vision. At least in part, some observers see the SBDC as he sees it–as "an organization within a university that has a mission of helping small businesses get started, [an organization that] helps them get through the early years, gives them management training and counseling, and has all of the services and equipment that small businesses need." Flewellen said that he foresees continued growth ahead, with the only obstacle being a lack of resources.

A knowledgeable observer who recognizes the scope and depth of Flewellen's accomplishment is John Jones, regional assistant district director for Finance and Investment of the Small Business Administration. Jones said that Flewellen's ability to think ahead, to look toward the future, has provided the SBDC with a far-reaching purpose in the community.

"The concept of the SBDC was Flewellen's concept. Just his undying and energetic support for the program has really benefited the SBDC," Jones said. And, speaking of Flewellen's retirement, he continued, "I don't think Dr. Flewellen is out of the SBDC arena yet. His ideas will carry on into the next few years. I think we will continue to grow."

SBDC Network

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Southeast Georgia Region
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Statesboro • Georgia Southern College • (912) 681-5194

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Marietta • Kennesaw State College • (404) 423-6450
Morrow • Clayton State College • (404) 961-3440
Rome • Floyd College • (404) 295-6326

Senator NUNN. Thank you very much, Dr. Knapp. We are very, very proud of what the University of Georgia has done with this program. You have led the way from the very beginning and Dean Flewellen has been, of course, one of our mainstays in the program for the country. So we are very proud of the leadership provided by of the University of Georgia, and delighted to have you here.

Let me call on Mr. Manning and then Mr. Pinkovitz, and then we will come back with questions to the whole panel.

Mr. Manning, glad to have you.

STATEMENT OF RONALD A. MANNING, STATE DIRECTOR, IOWA SMALL BUSINESS DEVELOPMENT CENTER AND PRESIDENT-ELECT, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Mr. MANNING. Thank you, Chairman Nunn and Senator Grassley. Good morning, I am Ron Manning. I am State director of the Iowa Small Business Development Center. I am also president-elect of our national Association of Small Business Development Centers. I am here this morning to give you a brief summary of the Iowa SBDC and also to discuss several points of concern from my perspective as the Iowa SBDC State director.

Iowa's economy, largely rural and dependent on the contributions of small business, both enjoys the advantage of numerous small operations, yet suffers from the disadvantages inherent in small scale and relatively weak leverageability.

Those persons engaged in small business throughout Iowa comprise the majority of our State's employment force in business establishments. Indeed, over 98 percent of Iowa businesses have fewer than 100 employees, while employing nearly 64 percent of the workforce.

Helping small business leverage its assets, is the prime mission of the Iowa Small Business Development Center. Through 16 regional service centers, the Iowa SBDC helps connect the entrepreneurs of Iowa's small businesses to resources in Government, education, finance, and private business management expertise.

The Iowa SBDC, headquartered at Iowa State University in Ames, is recognized as one of the country's most dynamic. The SBDC's contribution to the State's economic vitality through teamed efforts with numerous resource bases has helped position Iowa as a business-friendly State.

Most small businessowners are well qualified in the primary activities in which they engage: Manufacturing, selling or providing a technical service to their customers. However, many do not possess all of the management or marketing skills necessary to ensure profitable operation and growth.

By bringing together diverse resources specific to the businessowner's need, the Iowa SBDC can provide counseling and low-cost training in business plan preparation, accounting, financial analysis, management; marketing, international trade, invention and new product analysis; inventory control and other specific areas.

Over 30,000 Iowa individuals in businesses have benefitted directly from our counseling. More than 36,000 persons have participated in conferences, seminars and workshops developed or co-sponsored by the Iowa SBDC over the 8½ year period of 1982 through March 1990.

More than 500 private consultants and volunteers annually share their expertise with Iowa's small businesses through the counseling and training activities of the SBDC. The value of these efforts is measured in the success stories of those who have received help.

Long-term client surveys have indicated that the SBDC clients feel they could not have experienced the assistance received anywhere else at a price they could afford.

The tax receipts from SBDC clients to the State and Federal treasuries as a result of the increasing revenues generated by these businesses have increased dramatically over the history of the SBDC's service. For the future, as this success is augmented and leveraged for growth, these yields should continue to grow at a faster rate.

SBDC's counseling, training, information and other special services has contributed to reduced unemployment, fewer business failures and increased Federal and State tax dollars. The State's economic climate has been improved by a better business climate and improved small business operations.

Funding for Iowa's network of SBDC outreach offices comes from three partnered sources: 30 percent from the Federal Government, 48 percent from the State of Iowa, and 22 percent from local sources.

This partnered approach to funding is appropriate because the SBDC regional offices, working together with Iowa's Department of Economic Development, local Chambers of Commerce, and economic development organizations, are the means through which multiple and complex resources are most effectively and efficiently delivered to small business. Iowa SBDCs have demonstrated their effectiveness by helping the State weather tremendous economic challenges.

The fiscal year 1989 performance of the Iowa SBDC is represented by 5,478 clients receiving 24,700 hours of 1-on-1 counseling. In addition, 140 educational events for 4,300 attendees were held. We have special programs for international trade, inventors, procurement, women in business, minorities and low-income residents wishing to start a small business. Our technical transfer strategy is to work with the technical incubator tenants at the two State research universities as well as with the private sector. We are planning a specialized center for small business market analysis, which will primarily support the manufacturing industries and have an emphasis on high technology product.

We know that there is a need for service that we cannot afford to provide. We could accomplish much more if we could reach more clients and spend more time with clients and offer more services. There are many small businesses and prospective businesses in Iowa that we are not reaching. We have not marketed our services aggressively, for we realize our resources would have to be stretched and diluted dangerously. We estimate that we presently satisfy a fraction of the potential demand for SBDC service.

Federal funds we receive are extremely important to us, and we are very thankful for your Committee's support of the SBDC Program. Our State could not afford to do what we are doing without these funds, and I urge your continued support. The State has proven to be a very supportive partner with the Federal Government in the SBDC Program and an excellent model for others to incorporate.

As we approach the reauthorization year of the program, I also urge you to protect us from harm because of Iowa's decrease in population since 1980. Our population is on the rise again and the funds are necessary to maintain the momentum we now have to keep on the track of recovery.

I appreciate the opportunity to speak before you today and would be happy to answer any questions you may have. Thank you for listening.

[The prepared statement of Mr. Manning follows:]

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STATEMENT OF RONALD A. MANNING

STATE DIRECTOR

IOWA SMALL BUSINESS DEVELOPMENT CENTER

AND

PRESIDENT-ELECT

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

before the

U.S. SENATE SMALL BUSINESS COMMITTEE

April 18, 1990

Testimony Before the U.S. Senate
Small Business Committee
By Ronald A. Manning, State Director,
Iowa Small Business Development Center
April 18, 1990

ONE PAGE SUMMARY

Iowa's economy is largely dependent upon the contributions of small business. Indeed, over 98 percent of Iowa's businesses have fewer than 100 employees, while employing 64 percent of the workforce.

The Iowa SBDC is headquartered at Iowa State University in Ames, and is eight and one-half years old. Through a statewide network of 16 regional service centers (SBDC's) the small businesses are connected to resources in government, education, finance and private business management expertise. Fourteen of the SBDC's are located in universities or community colleges and two are housed in chamber of commerce offices.

Since the state is in rural mid-west, most small business owners qualify for the primary services offered by the SBDC--free individual counseling and low-cost training in: business plan preparation, accounting, financial analysis, management, marketing, international trade, invention and new product analysis, inventory control and other relevant and specific areas.

The 1989 performance of the Iowa SBDC is represented by 5,479 clients receiving 24,700 hours of one-on-one counseling. In addition, 140 educational events were held for 4,300 attendees.

Impact studies of long-term clients verify the success of the SBDC program by analyzing the success of SBDC clients. The clients also state that they could not have received similar assistance anywhere else at a price they could afford. Many attribute their very survival to the direct assistance received from the SBDC.

The federal funding (30%) received has been matched by a very supportive state (40%) and private sources (22%) primarily the local host institutions. Iowa could not afford to do this alone and by leveraging all of these sources of funds, successes are happening around the state.

I thank you for your past support and urge you to continue, and, if possible, increase your financial support. There is a need for services that we can not afford to provide and there are many small businesses that we are not yet reaching.

I also ask your support for the scheduled reauthorization of the program and specifically to hold harmless those states, like Iowa, who have experienced a loss of population since 1980. We have experienced a net population gain the last two years and are excited about the potential economic growth of our state. We need this program to continue and to be strengthened by stable funding. In return we must offer solid accountability to all of our supporters.

Chairman Nunn and Honorable Senators.

Good Morning! I am Ron Manning, State Director for the Iowa Small Business Development Center. I am also President-elect of the National Association of Small Business Development Centers.

I am here this morning to give you a very brief summary of the Iowa SBDC and also to discuss several points of concern from my perspective as the Iowa SBDC State Director.

Iowa's economy, largely rural and dependent on the contributions of small business, both enjoys the advantages of numerous small operations and yet suffers from the disadvantages inherent in small scale and relatively weak leverage ability. Those persons engaged in "small business" throughout Iowa comprise the majority of our state's employment force and business establishments. Indeed, over 98 percent of Iowa's businesses have fewer than 100 employees, while employing nearly 64 percent of the workforce.

Helping small business leverage its assets is the prime mission of the Iowa Small Business Development Center. Through 16 regional service centers, the Iowa SBDC helps connect the entrepreneurs of Iowa's small businesses to resources in government, education, finance and to private business management expertise.

The Iowa SBDC, headquartered at Iowa State University in Ames, is recognized as one of the country's most dynamic, and in 1988 earned official accreditation by the national Association of Small Business Development Centers, clearly marking its professional program. The SBDC contribution to the state's economic vitality, through teamed efforts with numerous resource bases, has helped position Iowa as "a business-friendly state." This Summary Report will clarify that SBDC contribution.

Most small business owners are well qualified in the primary activities in which they engage--manufacturing, selling, or providing a technical service to their customers. However, many do not possesss all the management or marketing skills necessary to assure profitable operation and growth.

By bringing together diverse resources specific to the business owner's need, the Iowa SBDC can provide essentially free individual consulting and low-cost training in: business plan preparation; accounting; financial analysis; management; marketing; international trade, invention and new product analysis; inventory control; and, other relevant and specific areas.

Over 30,000 individuals and businesses, since its inception in 1982, have benefitted directly from the economic counseling. More than 36,000 persons have participated in the conferences, seminars and workshops developed or co-sponsored by the Iowa SBDC over the eight and one-half year period of 1982 to March 1990.

More than 500 private consultants and volunteers annually share their expertise with Iowa's small businesses through the counseling and training activities of the SBDC. The value of these efforts is measured in the success stories of those who have received help.

The SBDC mission ensures that quality educational programs and counseling are available statewide, providing opportunities for focus on special emphasis areas for special interest audiences.

Long-term client surveys have indicated that the SBDC clients feel they could not have experienced the assistance received anywhere else at a price they could afford.

The tax receipts from SBDC clients to the state and Federal treasuries as a result of the increasing revenues generated by these businesses have increased dramatically over the history of the SBDC's service. For the future, as this success is augmented and leveraged for growth, these yields should continue to grow at a yet faster rate.

SBDC counseling, training, information and other special services has contributed to reduced unemployment, fewer business failures, and increased federal and state tax dollars. The states economic climate has been improved by a better business climate and improved small business operations.

Funding for Iowa's network of SBDC outreach offices comes from three partnered sources: 30% from the Federal government (via the U.S. Small Business Administration); 48% from the State of Iowa; and 22% from local host-facility allocations.

This partnered approach to funding is appropriate because the SBDC regional offices, working together with Iowa's Department of Economic Development, local Chambers of Commerce and economic development organizations are the means through which multiple and complex resources are most effectively and efficiently delivered to small business. Iowa SBDCs have demonstrated their effectiveness as the state weathers tremendous economic challenges.

The FY89/90 performance of the Iowa SBDC is represented by 5,478 clients receiving 24,700 hours of one-on-one counseling. In addition, 140 educational events for 4,300 attendees were held. We have special programs for International Trade, Inventors, Procurement, Women in Business, Minorities and low-income residents wishing to start a small business. Our technical transfer strategy is to work with the technical incubator tenants at the two state research universities as well as the private sector. We are planning a specialized center for small business market analysis which will primarily support the manufacturing industries and have an emphasis on high technology products.

We know that there is need for service that we can not afford to provide. We could accomplish much more if we could reach more clients, and spend more time with clients, and offer more services. There are many small businesses, and prospective business, in Iowa that we are not reaching. We have not marketed our service aggressively, for we realize that our resources would have to be stretched and diluted dangerously. We estimate that we presently satisfy a fraction of the potential demand for SBDC service.

The Federal funds we receive are extremely important to us and we are very thankful for your committee's support of the SBDC program. Our state could not afford to do what we are doing without these funds and I urge your continued support. The state has proven to be a very supportive partner with the federal government in the SBDC program and an excellent model for others to incorporate.

As we approach the reauthorization year of the program I also urge you to protect us from harm because of a lower population in 1990 than in 1980. Our population is on the rise again and it is necessary to maintain the momentum we now have to keep on the track of recovery.

I appreciate the opportunity to speak before you today and I would be happy to answer any questions at this time. Thank you for listening.

SBDC

IOWA
Small Business
Development Centers

DEVELOPING BUSINESS IN IOWA

A Summary Report
of the
Iowa Small Business Development Centers

Iowa's economy, largely dependent on the contributions of small business, both enjoys the advantages of numerous small operations and yet suffers from the disadvantages inherent in small scale and relatively weak leverage ability.

In a world where the marketplace is ever more competitive, helping small business leverage its assets is the prime mission of the Iowa Small Business Development Centers. Through 12 regional service centers (and additional branch offices), the Iowa SBDC helps connect the entrepreneurs of Iowa's small businesses to resources in government, education, finance and private business management expertise.

The Iowa SBDC, recognized across the country as one of the most dynamic, earned official accreditation in 1988, clearly marking its professional program. The SBDC contribution to the state's economic vitality, through teamed efforts with numerous resource bases, has helped position Iowa as "a business-friendly state." This Summary Report will clarify that SBDC contribution.

Q & A

What is the SBDC?

The Iowa SBDC, sponsored by the US Small Business Administration and an accredited member in the national association of SBDCs, was chartered in 1982 and is headquartered at Iowa State University in Ames. The SBDC is a statewide program to provide management assistance to small business and to those who wish to start new businesses.

What is its special purpose?

Most small business owners are well qualified in the primary activities in which they engage -- manufacturing, selling, or providing a technical service to their customers. However, many do not possess all the management or marketing skills necessary to assure profitable operation and growth.

How does the SBDC specifically assist small business?

By bringing together diverse resources specific to the business owner's need, the Iowa SBDC can provide *essentially free* individual consulting and low-cost training in: business plan preparation; accounting; financial analysis; management; marketing; international trade, invention and new product analysis; inventory control; and, other relevant and specific areas.

DEVELOPING BUSINESS IN IOWA:

FUNDING

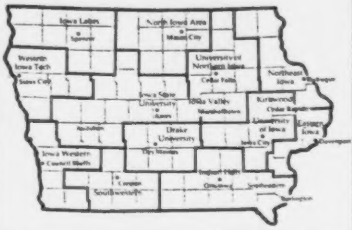
SBA

LOCAL

STATE

▲ A network of offices and expert counselors ▲ The proven ability of consultants from private industry ▲ Faculty from the state's universities and community colleges ▲ Experience in matching clients with financial and marketing partners ▲ Free access to SBDC's business libraries and databases ▲ Ongoing, continued help for continued business success ▲

RESOURCE CENTERS


Iowa Lakes
Spencer
North Iowa Area
Mason City
Western Iowa Tech
Sioux City
University of Northern Iowa
Cedar Falls
Northeast Iowa
Dubuque
Iowa State University
Ames
Iowa Valley
Marshalltown
Kirkwood
Cedar Rapids
Audubon
Drake University
Des Moines
University of Iowa
Iowa City
Eastern Iowa
Davenport
Iowa Western
Council Bluffs
Creston
Southwestern
Indian Hills
Ottumwa
Southeastern
Burlington

With Iowa's Department of Economic Development, local Chambers of Commerce and economic development organizations, Iowa's SBDCs are able to help translate and transfer new technology to the marketplace. This partnering and teamed effort thus creates new opportunities for business growth.

FUNDING for Iowa's network of SBDC outreach offices comes from three partnered sources: the Federal government (via the US Small Business Administration); the State of Iowa; and, local host-facility allocations.

The State of Iowa provides funds augmenting the contributions of SBA and local sources. The SBDC's state-contributions come from the "Iowa Fund" of lottery revenues administered by the Iowa Department of Economic Development.

This partnered approach to funding is appropriate because the SBDC regional offices and referral services are the means through which multiple and complex resources are most effectively and efficiently delivered to small business.

SBDC

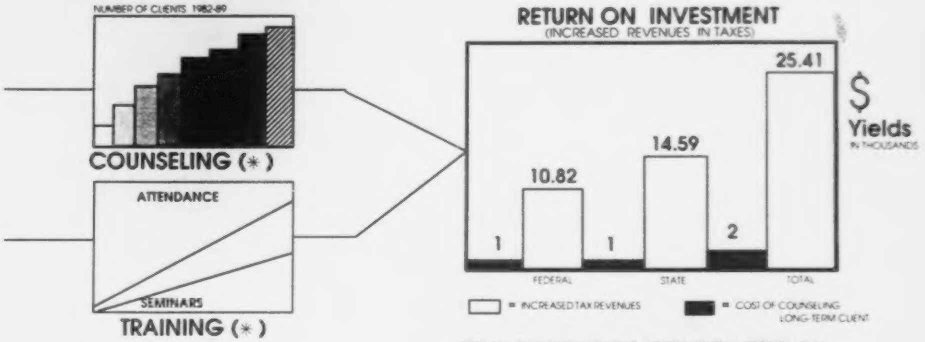
IOWA
Small Business Development Centers

1-800-373-SBDC

SBDC SERVICE CENTERS

LOCATION	YEAR OPENED
Iowa State University	1982
Audubon Branch	8/86
Iowa Valley Community College Branch	7/89
University of Iowa	1982
Kirkwood Community College Branch	7/89
University of Northern Iowa	
Drake University	1982
Indian Hills Community College	11/84
Southeastern Community College Branch	12/87
Dubuque Area Chamber of Commerce	
North Iowa Community College	
Western Iowa Tech Community College	2/85
Iowa Western Community College	4/85
Eastern Iowa Community College District	11/85
Iowa Lakes Community College	1/86
Southwestern Community College	7/87

THE PEOPLE, THE PROCESS, THE PRODUCTIVITY



* IN COUNSELING,

with the one-on-one, direct assistance required for effective communication of the State's many business-improvement programs, the SBDC offices throughout Iowa have served over 28,000 individuals and businesses since its inception in 1982.

The value of these efforts is measured in the success stories of those who have received help. More than 500 consultants and volunteers annually share their expertise with Iowa's small businesses through the SBDC program.

* IN TRAINING,

the statewide offices of the Iowa SBDC throughout the year provide learning courses, seminars and workshops. Nearly 32,000 persons have participated in the educational programming developed or co-sponsored by the Iowa SBDC over the eight-year period of 1982-89.

The SBDC mission ensures that quality programs are available statewide, providing opportunities for focus on special emphasis areas for special interest audiences.

(Exact figures for the charts above may be found on the back page of this Summary Report.)

THE REVENUES GENERATED BY

Iowa's successful small business operations have, according to long-term client surveys, tremendously outdistanced the cost of consulting; proportionately, the tax revenues returned to each major funder provide outstanding "profit" to society.

As the chart above indicates in striking fashion, the accrual to the state and Federal treasuries has increased dramatically over the eight-year history of the SBDC's service. For the future, as this success is augmented and leveraged for growth, these yields should continue to grow at a yet faster rate.

IMPACT of SBDC SERVICES OVER TIME

SBDC Counseling, Training Information & Other Services → Reduced Unemployment → Fewer Business Failures → Increased Tax Dollars → Improved Business Climate and Small Business Operations → Better Economy for the State

IOWA'S NETWORK OF
SMALL BUSINESS
DEVELOPMENT CENTERS

Ronald Manning
State Director, SBDC
137 Lynn Ave.
Ames, IA. 50010

The Iowa SBDC network is:

1) sponsored by the US Small Business Administration (SBA), Cooperative Agreement No. SB-2M-00071-09;
2) funded by the SBA, State of Iowa and host institutions;
3) administered and coordinated statewide by the College of Business Administration, Iowa State University.

PARTICULARS of the IOWA SBDC

PEOPLE:

Who qualifies? Any small business firm, community group or individual may request assistance from the SBDC. Priority attention is given to those projects which can best contribute to the growth and strength of the small business sector of Iowa's economy.

Who used SBDC services in 1989?

5,479	Clients Counseled
24,702	Hours in Counseling
99	Iowa Counties Participating
1,799	Women
344	Minorities
903	Veterans
2, 311	Start-up Businesses
2,430	Service Businesses
1,673	Retail Businesses
571	Manufacturing Businesses
271	Wholesale Businesses
127	Construction Businesses
407	Other Business Types

PROCESS:

COUNSELING (Number of Clients)

1982	919
1983	1,946
1984	2,825
1985	3,309
1986	4,234
1987	4,333
1988	5,014
1989	5,479

TRAINING

1982	Seminars: 62	Attendance: 2,192
1983	107	4,113
1984	99	3,412
1985	96	1,989
1986	118	4,003
1987	171	5,843
1988	162	6,104
1989	140	4,267

PRODUCTS:

Business Counseling

- -- Free
- -- Confidential
- -- One-on-One
- -- Provided by:
  - - Center Staffs
  - - Business Professionals
  - - Paid Consultants
  - - College Faculty
  - - Service Corps of Retired Executives (SCORE)
  - - Qualified Volunteers

Business Resources

- -- Books
- -- Periodicals
- -- Films
- -- Videotapes
- -- Business Software
- -- National SBDC Information Network

Business Services

- -- Referrals
- -- Contacts
- -- Information
- -- Computer Searches
- -- Invention Assistance
- -- Market Research

IOWA SBDC Summary Report: 12/89

Senator NUNN. Thank you very much, Mr. Manning.

Mr. Pinkowitz.

STATEMENT OF WILLIAM PINKOWITZ, DIRECTOR, WISCONSIN SMALL BUSINESS DEVELOPMENT CENTER

Mr. PINKOWITZ. Thank you, Mr. Chairman and Senator Grassley. It is truly a pleasure to appear before this Committee on the Small Business Development Center Program.

I have been with the SBDC for 9 years—7 years as a counselor and trainer and 2 years as State director. So, in addition to serving as director, I have had the opportunity to work with the hundreds of Wisconsin small businesses throughout the State.

Established in 1978 as part of the University of Wisconsin extension, the Wisconsin SBDC operates as a fully integrated unit of the University of Wisconsin system. As a result, the Wisconsin SBDC has access to the wide range of resources and knowledge of the University of Wisconsin system. As part of extension, the Wisconsin SBDC has the means to deliver those resources and knowledge throughout the State.

In Wisconsin, we talk about something called the Wisconsin idea, that the boundaries of the university are the boundaries of the State. Wisconsin SBDC truly embodies the essence of the Wisconsin idea. Since 1978 well over 100,000 Wisconsin people from throughout the State in all stages of business development have participated in counseling and training programs offered through the Wisconsin SBDC.

The SBDC in Wisconsin and nationally is effective for many reasons. We have heard about some of them today. I would just like to reiterate a couple of them.

First, the SBDC is effective because we have fully recognized the differential impact of poor management on big and small businesses. For example, unlike big businesses for major management mistakes, like the IBM PC Junior or new Coke might result in a change of a CEO or the downgrading of a firm's bonding rating from double A to A in an increase in cost of money by a half-a-point. For small businesses, when they fail to perform, they just disappear.

Second, while we recognize the correlation between management and success, we also recognize that few people enter business with much management experience or expertise. Rather, they start a business because they are good at something, they have an innovative idea, or they recognize an opportunity. While that may be enough to get into business, their survival, growth and success is dependent upon their ability to manage.

I think the following example illustrates that. In Wisconsin a small group of computer specialists established a software development manufacturing and marketing firm based on a single, very innovative software package. Sales increased rapidly, the company grew. As it grew, the owners management inexperience began to impede their ability to continue to grow. Billings were not sent, receivables were not collected, cash flow was nonexistent and they lacked any real organizational structure.

With the SBDC's help the organizational structure and internal controls were improved. In addition, the SBDC helped them identify and analyze other opportunities for expansion and diversification of their product lines. Today, the company has grown to several million in sales and continues as a leader in the field of specialty software development.

The SBDC Program is effective, because we recognize and respond to the management educational needs of small businesses. And we also recognize and respond to the changing nature of those needs.

When I started in the early 1980s with the SBDC—an especially difficult time for many Wisconsin small businesses—the focus of much of our work, our counseling and training, was on business strategies for survival. As the economy improved the Wisconsin SBDC responded by adding programs and resources to help businesses take advantage of emerging opportunities.

Today with Europe 1992, employee benefit plans, Government procurement, quality and the new unique aspects of family business are becoming increasingly important elements of our counseling and training programs.

The SBDC is effective because our counselors are able to diagnose and address real management issues, rather than simply responding and treating symptoms. And I think that, perhaps more than anything else, distinguishes the SBDC program from other management assistance providers. Another example, I think, illustrates that.

A new lumber yard in Wisconsin run by two brothers—if anything they know lumber—the first year they had $250,000 in sales and profits of $15,000—not bad. During the second year, sales increased fourfold to over $1 million, while profits only increased to $19,000. They contacted the SBDC for help in increasing sales. Now, instead of going out to the company and working with them to develop a strategy for increasing sales, the counselor quickly recognized that the problem was not lack of sales but inadequate margins.

Spending the time doing the analysis to help them recognize that they needed to restructure pricing, they increased prices an average of a little less than 2 percent. Within 1 year, profits increased to $50,000 as compared to $19,000, which is a little easier to split between two brothers than $19,000. And today's sales and profits and employment are continuing to expand.

We have heard about the GAO survey and the recent national SBDC impact study which both reaffirmed what most of us have known for a long time. SBDC clients, our customers, are satisfied. But more than being more than satisfied customers, the SBDC is having a significant impact on productivity, profitability, employment, and taxes.

How to improve the SBDC? First, continue the SBDC through reauthorization. Second, as we have heard, fund at the levels that will allow for further growth and development of the more recently established SBDC, but do that without reducing the funding levels and our ability to deliver programs for established programs like Wisconsin, which has received no increase in Federal funding since 1982.

Finally, we have spent 10 years establishing and building a national network of strong and effective SBDCs. More recently, we have undertaken some important national initiatives. The SBDC connection in Georgia, the National Clearing House and resource for all SBDCs help us all become more effective and efficient.

The Small Business Forum, a recent joint venture between the Wisconsin SBDC and the ASBDC, the association—a small business journal that fills that important need between the academic journals which simply report research results and the popular small business press which, unfortunately, too often try to give simple answers to very, very important and complex questions.

I encourage you to support and foster the continuation of other national SBDC initiatives as a means to improve the program by helping us take better advantage of what we develop.

Again, thank you for the opportunity to share some of my experiences and thoughts before the Committee.

[The prepared statement of Mr. Pinkowitz follows:]

Testimony of William Pinkovitz
Director, Wisconsin Small Business Development Center
Before the United States Senate Committee on Small Business
Washington, D.C.
April 18, 1990

Mr. Chairman and members of the Committee, thank you for the opportunity to testify before the Senate Committee on Small Business on behalf of the Small Business Development Center Program. I am William Pinkovitz, State Director of the Wisconsin Small Business Development Center.

Established in 1978 as part of the University of Wisconsin-Extension, the Wisconsin SBDC was the first SBDC in the country to operate as a fully integrated unit of a statewide university system. As a result, the Wisconsin SBDC has ready access to the wide range of resources and knowledge of the University of Wisconsin. As a part of the University of Wisconsin-Extension, the Wisconsin SBDC has the means to deliver those resources and knowledge to businesses located throughout the state.

The Wisconsin SBDC embodies the essence of the Wisconsin Idea -- that the boundaries of the University are the boundaries of the state. The Wisconsin SBDC reflects the philosophy of Kenneth Shaw, President of the University of Wisconsin System, our Board of Regents, and Governor Tommy Thompson who collectively agree that education shall play an important role in business and economic development. Our Small Business Development Center program is recognized by both the University and the state as an important part of Wisconsin's long-term economic development strategy.

In 1989, 2200 people received one-to-one management counseling and 11,000 attended the 700 seminars and workshops offered by the Wisconsin SBDC. Counseling and training topics include the fundamentals of business management, business planning, market analysis, cash flow management, international trade, venture financing, and government procurement.

More important than statistical information, I want to impress on you that Wisconsin's SBDC program has remained an effective educational leader because we have responded to the changing needs of the small business community. In the early 1980's, we concentrated our efforts on helping small business owners survive the deadly combination of inflation and recession. Counseling and training focused on business survival strategies such as improving internal management controls, increasing efficiency, and squeezing the most cash out of assets.

As the economy improved later in the 1980's, the Wisconsin SBDC responded by developing resources to help small businesses take advantage of emerging opportunities. Counseling and educational programs targeted to managing growth and identifying and analyzing business opportunities were added.

Today, current and emerging issues such as Europe 1992, employee benefit plans, government procurement, applications of new technology, change in the labor force, and change in consumer demographics are becoming increasingly important elements in our educational programs.

Program priorities are not set unilaterally by the Wisconsin SBDC. During the last year, we held eight small business roundtables around the state with over 200 business participants. During these session, we were able to identify the major issues facing Wisconsin small businesses and establish five priority areas for the next decade.

1. The changing nature of the labor market;
2. The changing nature of employee/employer relationships;
3. The changing nature of technology and its adaptation;
4. The changing nature of the marketplace; and
5. The changing nature of consumer demographics.

SBDC programs in Wisconsin will reflect these priorities during the 1990's.

The SBDC program is successful because we respond to a very specific need in the small business community -- the development of management skills to make well-reasoned decisions about critical business management issues. The owner/manager educational process is extremely important to the success of small business.

Larger businesses understand and recognize this need. In 1988, business and industry spent $100 billion on education, training, and retraining. Over half of the total was spent by the largest 300 corporations in the country. AT&T recognized the need for innovative educational programs for its employees and spent over one-half of the University of Wisconsin System budget on training and education.

To develop management skills required to succeed in small business, the SBDC program is delivered by counselors who have a knowledge and understanding of the practices of small business. They are uniquely able to help small business people overcome the inadequacy of their management skills that all too often hamper their success, if not their survival. The following examples illustrate this point:

1. **Typically, small businesses are started by individuals with highly qualified technical skills and very little experience in business management.**

   A small group of computer specialists established a software development firm. Their first product was a software package that permitted IBM and DEC computers to communicate. As one of the first packages of this type on the market, sales increased rapidly. While the company grew, the owners' management inexperience began to seriously effect performance. Inadequate billing and ordering systems, little understanding of cash flow, and the lack of any real organizational structure threatened the future of this company.

With the help of the SBDC and a Small Business Institute student team directed by the SBDC coordinator, an organizational structure and internal control systems were developed. Since then, the company has grown to several million dollars in sales and continues as a leader in the field of specialty software development.

2. **Small business owners need to better diagnose the real problems facing their small businesses, not just symptoms.**

A small specialty lumber yard contacted the SBDC for assistance in developing strategies for increasing sales. The company was two years old. Sales had increased from $250,000 the first year to $1.2 million the second. Profits, on the other hand, had only increased from $15,000 to $19,000.

The SBDC counselor recognized the issue as inadequate margins rather than the need to increase sales as had been thought by the lumber yard owner. After several meetings with the owner, a decision was made to increase prices by an average of 1.9%. Within one year, profits increased to over $50,000. Since then, sales and profits have continued to rise.

3. **Management skills are extremely important to the long-term health and well being of small businesses.**

A specialty retailer was recognized nationally for her success in generating one of the nations highest sales per square foot in her four stores. Sales averaged $500 per square foot compared to a national average of $200. However, she was only able to draw $25,000 annually from the operation. Her specialty was marketing. She had little interest in inventory control or financial management.

With the help of three SBDC counselors and several training programs, she has learned the importance of inventory control and financial management. She has implemented the counselors' recommendations, and while sales now grow at a somewhat slower pace, profits and her draw have tripled. As a result, a small business that was ready to burn this owner out is now able to support a second generation and will likely prosper for years to come.

4. **Management skills are important to identify the needs of targeted markets.** A two-year old mail order company had grown to $250,000 in sales but had yet to break even. The owner's analysis of a customer survey indicated that a good specialized market niche existed. He contacted the SBDC to help him develop a business plan to attract venture capital and expand the business into the identified market. However, further SBDC analysis indicated that the target market needed to be redefined and the market strategy needed restructuring.

   As a result, the company was able to finance growth internally, and within three years, sales totaled several million dollars, profits exceeded one million dollars, and the company employed 75 people.

The SBDC program is working. A recent GAO survey revealed that nationally and in Wisconsin SBDC clients are satisfied with the assistance they have received. They better understand the importance of developing their own business management skills and the application of these skills in responding to the needs of their individual customers and markets in developing business plans. An impact study confirmed that SBDC counseling and training has resulted in increased productivity, employment and profitability. The importance of management education and knowledge justifies the reauthorization of the SBDC program.

Beyond reauthorization, I would recommend that Congress consider the level of reauthorization and the impact of recalculating the formula for allocation of SBDC funding. Wisconsin's SBDC program has not had an increase in federal funding since 1982. Nevertheless, the number and quality of counseling cases has been maintained. We have developed innovative counseling delivery methods and rely heavily on our training programs. However, like many of our clients, we are about as efficient as we can get without sacrificing quality. Without additional funding, the decision for the Wisconsin SBDC program would be difficult but obvious — fewer Wisconsin small businesses could receive direct one-to-one counseling from our statewide program.

Again, thank you for the opportunity to testify on behalf of the national Small Business Development Center program. If you have questions, I would be happy to respond.

(The Journal of the Association of Small Business Development Centers is retained in Committee files.)

Senator NUNN. Thank you, Mr. Pinkowitz.

Senator Grassley, I am going to ask two or three questions here, and then, I must depart for a 10:30 a.m. meeting. I would like to turn it over to you to Chair and finish up the questions.

Senator GRASSLEY. I will be glad to do that.

Senator NUNN. Let me ask all of you this question. Your analysis of the effect, if the Federal funding for the SBDC Program were cut to zero as recommended by the Bush Administration. Mr. Bernier, let me get your answer first.

Mr. BERNIER. Some SBDCs in some States would cease to exist. In other States, they would continue at a reduced level. In Nebraska, we would probably continue operating, but we would cut from the current eight centers that we have serving the State now, probably around four.

I think most importantly the national continuity of the program would be gone. The support of the national objectives would be gone and the cross-fertilization that is so important of SBDC people working together and learning from each other, that would be gone as well. So, I think it would be a tragedy if that would happen.

Senator NUNN. Thank you.

Dr. Knapp, how about Georgia?

Dr. KNAPP. Senator, we get just over $2 million in funding from the State government each year, as you know, for the SBDC. And I would expect that we would make a strong argument, of course, for that to continue. But, I think, it is important to recognize that one of the things State government finds most attractive about this program is that they consider their funds to be leveraged too.

And given also the budget constraints of States and the State of Georgia in particular right now, I think even that level of funding might be in jeopardy. We would do everything we could to continue the program in Georgia. But there is absolutely no question in my mind that it would be at a reduced level.

Senator NUNN. Mr. Manning.

Mr. MANNING. I feel very similar. We would struggle to keep as much open as we can. The $825,000 that our State receives based on our population is extremely important in keeping the program alive and being able to expand it, especially, in the rural areas. Our additional funds have been used, as we have grown, to open up centers in the outreach area, where we are serving all 99 counties.

Some institutions that we have centers in would be hard-pressed to fill the gap. And I would expect that we would have to close some of them. And others might be able to survive. In general, the State funds that we get are extremely supportive, but they are stretched. I do not think we could get much more from the State than we are already getting. So it would be a serious impact on us.

Senator NUNN. Mr. Pinkowitz.

Mr. PINKOWITZ. Well, this is the question that the university has pondered several times in the last several years.

The university is strongly behind the Small Business Development Center as is the Governor. The program would not go away. However, the likely cost would be a transfer of efforts to more programs and training events which will generate revenue to support the program at the cost of individual counseling, which I think we all agree is the real strength and foundation and a real competitive advantage, if you will, of this program.

Senator NUNN. Again, to each one of you: We passed a trade bill in 1988, which included a title authorizing SBDCs to implement programs specifically dedicated to increasing small business exports, and to increase the transfer to and utilization by the small business sector of technology obtained from larger businesses or developed by the Federal Government.

Have any of you gotten any funds under that program? Do you have much going on in the export area?

Mr. Bernier, why do you not speak to that?

Mr. BERNIER. Yes. There have been no funds appropriated for that program. And the SBDCs, therefore, have not been able to participate. Some States have export assistance programs that have been funded at their SBDCs with SBA funding. But many other States do not, partly because, with the population formula funding, there is not sufficient funds to create a statewide network and to organize specialized service centers, assistance centers in addition to that through the SBA Program.

And so, this trade bill would have been a great help. Also, it might have been able to provide model programs that could be duplicated in States that do not have the resources to create programs themselves. In Nebraska, we do not have the resource to create an exporting program, and we would like to be able to pick up a program or to learn from another State that has developed the program and be able to set up a similar type of thing.

Senator NUNN. Would this be one of your top choices for expansion of the SBDC Program, if we were able to put some money in it?

Mr. BERNIER. Yes. I think it is a very important—in technology transfer, particularly so. The utilization of technology even in the rural States is very important. Even if you are not in the center of Silicon Valley, the technology is still very important to you, because of the use of the technology in providing increased efficiencies and lower cost.

Even in a seemingly low-tech product like this, we are involved in trying to find lower cost ways through the printing technologies of producing that product.

Senator NUNN. With the passage of the Clean Air Act, which I hope will happen this year, we are going to have a major challenge in the small business arena to be able to meet the standards of the Clean Air Act and do it in a way that can continue these small concerns as viable economic endeavors. I have not thought through this issue, but I would like for each of you to think about it for another hearing and share your ideas with me in correspondence.

I believe that we are going to need to have a dissemination of technology to grassroot small businesses in a quicker fashion than we have had. How you pay for it is another concern, but just access to the knowledge itself is important. I do not know what role SBDC's can play in such a process, but with the universities being able to draw from many sources, environmental scientists and others. It seems to me that this issue is one that all of us ought to start thinking about.

Dr. Knapp, again, the first question: Is the university working on export promotion and Technology Transfer?

Dr. KNAPP. Senator, you are, of course, well aware that Georgia is becoming a State that is increasingly dependent on international trade and commerce. And for that reason, the university has used our scarce resources to be very aggressive in this area. The case I cited in my testimony of Superior Sealants is a good example of that.

If I could point to one thing that has been very effective in our program, it is that we have brought into the SBDC people who have hands-on experience in international trade, experts in various areas—Europe, Middle East, South America. The challenge of getting international trade going for small business seems to be finding the market niche that they can best operate in.

And our experts in these various areas have been very effective in terms of helping small businesses in Georgia get into the international market.

Senator NUNN. Good.

Mr. Manning and Mr. Pinkowitz, I am going to have leave. I would like you both to answer the same question. Senator Grassley, would you take over.

Senator GRASSLEY. Just go ahead and answer that question for Senator Nunn. Then I will ask some more questions.

Senator NUNN. Thank you all for being here. I appreciate it, and I am sorry I have to leave.

Mr. MANNING. One of the strengths of the SBDC Program is that the SBA allows us to customize the program to our individual States. On the exporting question, we have a fairly strong economic development department in international trade and also an excellent Department of Commerce representative in Iowa.

They work together, and we work with them. We have not duplicated those resources. Currently, we are cosponsoring about 23 export training sessions around the State. We attend together, we help promote it, and that is what we are doing in the arena of exporting.

We certainly could use additional funds. And even though it has not yet been appropriated, we had preliminary plans to continue working together and maybe enhance our ability to encourage more trade missions and that sort of thing.

On the Technology Transfer question, we are dealing with Technology Transfer in a lot of different areas—but recently one of our SBDC's promoted a Technology Grant Program with my home State university, Iowa State University. This is an individual who has got a paper company, a distribution company primarily.

And when you analyze his company, they are already a state-of-the-art company and ahead of almost everybody in that industry, as far as their profits and number of employees employed. The owner is a very far out thinker and is always looking to improve, even though he is fairly profitable and productive right now. It is only a $12 million business, but in Iowa, that is a fairly substantial business.

Just recently, out of his own pocket, he gave Iowa State University $326,000 to do some applied research on neural networks that can help him in his distribution problem. In addition, he is going to set up a separate company, so when this 3-year project is finished, he can market these concepts to others who need a state-of-the-art distribution system.

This is one area of Technology Transfer that the SBDC can help with by finding people needing Technology. We can also help direct unsolicited technology to companies. Many of our bright-eyed technical entrepreneurs find that their technology gets old and they are out of money. They cannot find an affordable way to enhance their technology, even though it was originally good. It is one of the real problems in continuing to help businesses and keep them surviving.

Senator GRASSLEY. Would you like to speak to Senator Nunn's question on international trade as well before I ask my question?

Mr. PINKOWITZ. Just very briefly, we in Wisconsin have maintained an Invention Evaluation Center and a Technology Transfer Center for several years. And we right now are undergoing an onsite review of those initiatives.

Simply, one of the reasons is because of scarcity of funds. And we have to step back and take a critical look at, is that where we are investing our resources most effectively into the highest priorities. So while that program is not in danger, that is certainly one of the reasons we have to take a close look at it.

On the international front, international trade justifiably so, is a very hot topic right now, which will continue to be that way. Most efforts I see out there focus on the how-tos. As a university-based program, we are developing a program that will help develop international business people, so we can help small businesses establish customers in the international marketplace, rather than simply helping them make the sale. I think that is where the future for us really is in the international trade arena.

Senator GRASSLEY. Thank you very much on behalf of Senator Nunn.

Mr. Manning, in your statement you mentioned international trade, and I have a question similar to Senator Nunn's. But let me ask, in addition, could you point to—and I am not necessarily looking for a long list—but could you point to some specific small businesses that you counseled with that are in international trade now, that previous to counseling with you they probably were not in international trade, so that the initiative—the initial help—came as a result of your organization?

Mr. MANNING. One that immediately comes to mind, Senator Grassley, is a company called Jeanie's. Jean Brown is a fashion designer. She was just beginning to start her own business, when she came to our center at Drake University. It has only been 4 years, I think, since she has started.

She has already developed a multi-million dollar business. Her product is partly her unique design in applying denim, leather or suede to knit sweaters and suits and that sort of thing. They are just gorgeous and sell at very high priced stores. And she is marketing all over the world. She started locally and got into stores like Saks, and then, through our help on marketing and the other things we have helped her with, she launched into international trade as well.

Several years ago a company owner who was selected as the Small Business Person of the Year Award made something like a $7 million or $8 million business out of gummy bears, believe it or not. And the business is in a very small rural Iowa town of about 900, employing about 170 people themselves.

They have the reverse of international trade. They get the German gummy bears imported into the United States, do the packaging and distribution all over the Nation and back throughout the world again in a small successful business operation.

We have a lot of experts in the State that deal with international trade. And the SBDC's role, primarily, is to be sensitized to those who can use that market arena and make sure that they get referred in the right direction to capable people.

Senator GRASSLEY. This question is for all of you. I did not understand from Senator Nunn's question, whether your response to his first question regarding the level of funding was what would happen to the SBDC Program if that $19 million is not appropriated?

Also, what about the additional years when the Administration proposes a phaseout for funding? Was your response inclusive of the extension of the $19 million cutback to a phaseout as well? Or would you be even more drastic in your statement of curtailment of activity as a result of that further reduction in 1992 and beyond?

Mr. MANNING. Speaking for Iowa, my response was inclusive of going down to zero Federal funds. I think the first phase of reduction with a zero funding on the horizon would be a signal to our State. Our supporters would take a hard look at whether or not this is a viable program that they can continue to fund. Or they may feel it is only going to limp along and maybe they should pull out now. So it is a very dangerous situation.

Mr. BERNIER. Yes, Senator, I might say mine was as well, that our State is funded to a level that we can keep four centers going—four service centers going—without Federal funds. And then the additional four, we would not be able to. But I might say that here at this table, you have four mature centers, four universities that have mature centers. And we would be the first to cut back, if the SBA began a phaseout of the program.

So I would expect that if that happened, we would be cut to zero first, rather than those that have come on later. And those that have come on later, by the way, have not had the opportunity to develop the kind of State support that more mature centers have.

Mr. PINKOWITZ. Senator, I think it is important to recognize what any cut would have in a program like Wisconsin. I think we are all in the same position. Looking at the initial rough calculations of what would happen to Wisconsin, given the new census, and if the formula were recalculated, it looks at about a $35,000 decrease in the program.

Now that does not sound like a lot of money to a $1.3 million program. But when you take a look at numbers of business people that that will affect, what that means is that that is $35,000 that we will not have to hire faculty and private sector consultants to provide counseling assistance to approximately 200 Wisconsin businesses.

It is a marginal—we are operating at the margin at that point. But just a small cut of a mere $35,000 in the program is going to have a significant impact on the program.

Dr. **Knapp**. I think this may represent a consensus view here. And I took it from Mr. Becker, the individual from the Small Business Administration, it is probably the view that at least he personally shares.

I think what is happening here—and for valid reasons to some extent—the Administration, of course, has to set its overall budget priorities. But that issue aside, I do not think there is anybody at this table, or anybody in the SBDC community that does not—that would really accept the argument that even given a phase-down over a couple of years, such as the Administration is suggesting, that the level of services provided by the SBDCs nationwide will be at the same level, that we will be able to maintain that same level of service.

There will be—it takes quite a flight of fantasy to argue that the services are going to be at the same level under those conditions, I think.

Mr. **Manning**. I have another comment, I would like to make. Dr. Knapp referred to the SBDC Clearing House that University of Georgia has been awarded. It is currently in its 3d year of development, so basically just starting.

I chaired the committee that helped establish it at the University of Georgia with approximately $200,000 of SBA funds. Nowhere in this discussion is a determination of the future of this important support vehicle. I am assuming that if SBA funds went away that the clearinghouse would have to cease as well.

This is a national clearing house for all of the SBDCs to utilize, and it is coming along very, very well. It is still young and being developed, but would be a serious loss if abandoned.

Senator **Grassley**. From any or all of you I would be interested in knowing whether or not there are any statistics on the failure rate of small business and enterprises that fail after receiving SBDC help, as opposed to failure rate in general among small business?

Mr. **Bernier**. On our follow-ups in Nebraska, we have found—I do not know about particular failure rates—but we have found that about 5 percent of our clients a year after we have counseled them that, we are unable to get a hold of them for some reason that, they have discontinued in business, or their telephone is disconnected or something, when we do a follow-up survey.

So if you can translate that into, if not business failure, at least business dissolution, then, we have got about 5 percent.

Senator **Grassley**. And I assume that is a much lower percentage than small business generally?

Mr. **Bernier**. In the small business generally the rate is around a-third.

Senator **Grassley**. Any of the rest of you, do you have any information in regard to this matter?

Dr. **Knapp**. Senator, I do not have any information. But I would be glad to check to see if we do have information like that.

Senator **Grassley**. If you do, please supply it for the record.

Mr. **Manning**. I have underway a research project on the retail industry trying to get some hard data on business failures. Failure rates are kind of my hot button, because the experience of failure to business people is important. They need to fail in order to succeed. Most of our successful business people have failed a few times. I would rather invest my money in those conditioned business people, than those that are going through the experience for the first time wouldn't you?

So the research that we are doing is trying to track the person instead of the business, which I think is even more important.

Mr. **Pinkowitz**. When I get asked that question, I sort of feel like a cardiologist, who does the toughest operations and so, therefore, he has the highest failure rate.

When I define failure, it is not just calling up and the business not being there. It is the business person who has been in business for 4 years and is taking $12,500 a year home. And I think while we do not have—or I do not have—data on failure rates of clients, we do have significant data through the national impact study on the marginal effect of SBDC counseling, on helping businesses achieve more than mere survival.

I think that is really the issue. I think Ron is right, that although we do not encourage failure, that failure rate is part of small business. And it is an indication that people are taking risks and undergoing innovations.

Senator **Grassley**. You may receive requests for written answers to questions by many of my colleagues who could not be here today and we would like to have a response, I suppose, within a couple of weeks—2 weeks from today. I thank you for participating in this hearing, and the meeting is adjourned.

[Whereupon, at 10:47 a.m., the hearing was adjourned.]

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APPENDIX

Minnesota Department of
Trade and Economic Development

Office of the Commissioner

900 American Center
150 East Kellogg Boulevard
St. Paul, MN 55101-1421

612/296-6424
Fax: 612/296-1290

April 10, 1990

The Honorable Dale Bumpers
Chairman
Committee on Small Business
United State Senate
Washington, D.C. 20510-6350

Dear Senator Bumpers:

We are pleased to submit the enclosed statement concerning the operation of the Small Business Development Center program in Minnesota.

During 1989, Minnesota Small Business Development Centers provided over 21,500 hours of counseling to more than 4,300 small business owners and managers. In addition, the program sponsored 169 training programs which attracted over 6,900 attendees.

The Small Business Development Center program clearly is valued by those who use its services. We appreciate this opportunity to share our successes with the Committee on Small Business.

Sincerely,

David J. Speer

David J. Speer
Commissioner

Mary J Kruger

Mary J. Kruger
Acting State Director
Minnesota SBDC Network

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Minnesota Department of
Trade and Economic Development

Small Business Development Centers

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Statement Concerning the Operation of Minnesota Small Business Development Centers

Submitted to the
Senate Committee on Small Business

by
David J. Speer, Commissioner
Minnesota Department of Trade & Economic Development
and
Mary J. Kruger, Acting State Director
Minnesota Small Business Development Center Network

April 18, 1990

An Equal Opportunity Employer

Statement Concerning the Operation of Minnesota Small Business Development Centers

We are pleased to have this opportunity to share with you the successes experienced by the Small Business Development Center program this past year.

The Minnesota Department of Trade and Economic Development has served as lead institution for the Small Business Development Center program for just over one year. The counseling and training services we offer to small businesses are provided by a network of 28 regional, specialized and satellite centers around the state.

In 1989, these centers provided over 21,500 hours of counseling to more than 4,300 small business owners and managers. Of these, over 70 percent were located outside the Minneapolis-St. Paul metropolitan area. The Minnesota Small Business Development Center network also offered 169 training programs, which attracted over 6,900 participants. Over 70 percent of these individuals were from outside the Twin Cities metropolitan area.

The greatest number of businesses seeking help from our centers are service firms. In 1989, nearly 43 percent of our counseling clients were service businesses. We also counsel a substantial number of retail and manufacturing firms. In 1989 about 23 percent of our clients were retailers and about 20 percent were manufacturing firms. Wholesale, construction and other businesses account for the remainder of our counseling caseload.

About half of our clients come to Small Business Development Centers for assistance in starting a business. Other major areas in which clients seek counseling help are marketing, identifying sources of capital, and financial analysis. Our centers also provide counseling on accounting and record keeping, engineering research and development, international trade, government procurement, inventory and cost control, and in many other areas.

Our management training programs are designed to respond to specific client needs. Accordingly, many of our training programs in 1989 focused on business planning, developing pre-business and management training skills, marketing and sales, and financial management. We also offered programs on international trade, risk management, record keeping, taxation, advanced management practices and industry-specific topics.

This past year we have taken a number of steps to streamline the operation of the Small Business Development Center program in Minnesota. Working through several task forces comprised of center directors, we have defined our service mission and have developed a plan for allocating our personnel and financial resources to meet the service needs of our clients. We have taken a detailed look at the operations and structure of our centers and have formulated operating policies to assure that they are in compliance with federal budgetary and programmatic requirements. We have continued to build a resource library for the use of our centers and their clients, and we publish a monthly newsletter apprising small businesses and their advisors of important legal issues and other matters that affect them.

The Small Business Development Center program has the strong support of the Minnesota Legislature. In 1989, the Legislature appropriated $250,000 in matching funds for the program. This was in addition to funds appropriated and used as match by our centers' host institutions. During the year, the Minnesota House Committee on Economic Development conducted a series of mini-sessions around the state on small business issues. These hearings were coordinated by our Small Business Development Centers.

In 1990, we plan to undertake a detailed study of the cost effectiveness of the Minnesota Small Business Development Center program. That study also will examine our clients' satisfaction with the counseling and training they receive. We believe this study will augment the positive results of the nationwide study of Small Business Development Centers recently completed by the General Accounting Office.

We would like to close by sharing with you some success stories of Minnesota Small Business Development Center clients.

* The St. Cloud State University Small Business Development Center helped a consortium of 60 Central Minnesota rabbit growers and processors establish a distribution network for its products. Several large independent grocery stores and two grocery chains are now test marketing those products. The Small Business Development Center is helping the group locate a large scale processor to enable it to market its products nationwide.

* A Grand Rapids, Minnesota inventor was assisted in obtaining $150,000 in loan commitments to purchase molds and other equipment and to provide working capital to finance the design and manufacture of a

boat dock bumper and pole carrier for the marine industry. Three new jobs will be created.

* The Thief River Falls Small Business Development Center helped a client begin a consignment gift shop. The business provides employment for the two owners and serves as a marketing outlet for 52 area craftspeople.

* A Waseca woman was able to expand her craft and hobby shop into a florist and cake decorating center, with the help of the Mankato State University Small Business Development Center. She is strengthening her management skills through a training program arranged by the Center.

* A child care business in Faribault was facing closure because the owner was unable to obtain adequate funding. The Faribault Technical College Small Business Development Center helped her generate financial forecasts and prepare a business plan. As a result, the woman was able to obtain a grant to continue the business.

* The Wadena Technical College Small Business Development Center helped a patio furniture manufacturer prepare a loan package for working capital funds. The loan was approved, and as a result, the company was able to fill more orders. Four new jobs were created and four part-time jobs became full-time positions.

* The College of St. Thomas Small Business Development Center helped a Vietnamese woman prepare a plan for financing a food manufacturing business. The woman was a successful restaurateur who wanted to expand her operations in a way that would assist other Vietnamese refugees. With the help of the Small Business Development Center, she developed a plan to manufacture and distribute frozen egg rolls. She obtained the necessary financing, and is now distributing her product to 26 supermarkets. The business employs 15 people, all of whom are Vietnamese refugees.

* The Southwestern Technical College Small Business Development Center assisted a client in obtaining a $5,500 loan from the Bureau of Indian Affairs to expand a native art business. The Small Business Development Center also assisted in business planning, and preparing a brochure. It also was instrumental in

enrolling the client in a small business management class to improve his skills. The client reports that sales are up and that his art is being shown internationally.

- The Pine Technical College Small Business Development Center helped a client develop a business plan and loan package that enabled her to purchase the retail clothing store where she worked. As a result, the store was able to remain in business and the employees' jobs were saved.

- The Rochester Community College Small Business Development Center helped a client obtain a $100,000 Technology Research Grant. The grant enabled the client to upgrade his alfalfa processing equipment to produce a new, highly profitable product that has strong export potential.

These are but a few of the successes reported by clients of Minnesota Small Business Development Centers. They are indicative of the quality of counseling and training programs available to small businesses throughout the state.

We are pleased that the Legislature has authorized the Department of Trade and Economic Development to serve as lead institution for the Small Business Development Center program in Minnesota. We look forward to strengthening the program in the future, and expanding both the volume and the quality of service offered to Minnesota small businesses.

MAY -8 [illegible] 13

Small
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May 4, 1990

The Honorable Dale Bumpers
Chairman
Senate Small Business Committee
428-A Russell Senate Office Building
Washington, DC 20510-6350

Dear Mr. Chairman:

This is an unsolicited letter of support urging that the Senate Small Business Committee report, as part of its SBA authorization bill, a provision authorizing the small business development center for another four years. Not only do we recommend the continuance of the program in the 49 states, Puerto Rico, the Virgin Islands and District of Columbia, but we recommend that the $65 million funding formula be adjusted to "hold harmless" those SBDCs that would experience a federal funding reduction as a result of the 1990 census.

We believe that the SBDC program has realized the promise envisioned when the enabling legislation was enacted in 1980. Hundreds of thousands of small businesses across the country have benefitted from a multitude of programs designed to meet their unique needs. The SBDCs have also enabled many would-be entrepreneurs, including a significant percentage of minorities and women, to start their own businesses.

In this era when we are all concerned with competitiveness, we can think of no other small business management and technical assistance program that helps make the independent section more cost competitive and productive.

Thank you for your consideration. Please let us know if we can be of assistance regarding this very important issue.

Sincerely,

E. Colette Nelson

E. Colette Nelson
Procurement Committee Chairman

ECN/S1420
Enclosure

1025 Vermont Avenue NW/Suite 1201/Washington D.C. 20005/(202) 639-8500

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National Association of Truck Stop Operators
National Association of Women Business Owners
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National Coffee Service Association
National Council for Industrial Innovation
National Electrical Contractors Association
National Electrical Manufacturers Representatives Association
National Fastener Distributors Association
National Grocers Association
National Independent Dairy-Foods Association
National Knitwear & Sportswear Association
National Limousine Association
National Lumber & Building Material Dealers Association
National Moving and Storage Association
National Office Products Association
National Paperbox & Packaging Association
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National Precast Concrete Association
National Shoe Retailers Association
National Society of Public Accountants
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